

**NORTH BRANCH MUNICIPAL WATER  
AND LIGHT COMMISSION  
NORTH BRANCH, MINNESOTA**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NORTH BRANCH MUNICIPAL WATER  
AND LIGHT COMMISSION**

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**INDEPENDENT AUDITOR'S 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, 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. The North Branch Municipal Water and Light Commission, has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not required to be part of, the basic financial statements.

### *Other Information*

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.

The supplemental information as identified in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, and the procedures performed as described above, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2013 on our consideration of North Branch Municipal Water and Light Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Dennis E Oberloh, Ltd.*  
Dennis E. Oberloh, Ltd.

March 19, 2013

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012

	<u>Business-Type Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 335,484
Receivables:	
Accounts Receivable	722,008
Due from Primary Government	28,535
Other Receivable	70,948
Inventory	227,222
Restricted Cash	1,532,796
Capital assets not being depreciated:	
Land	98,930
Other capital assets:	
Property and Equipment	35,070,862
Accumulated Depreciation	(8,254,894)
Unamortized Issuance Costs	143,878
Unamortized Debt Discount	137,919
<b>TOTAL ASSETS</b>	<u><b>30,113,688</b></u>
<b>LIABILITIES</b>	
Accounts Payable	174,613
Accrued Expenses	18,571
Accrued Interest	282,262
Customer Deposits	83,752
Deferred Rate Stabilization	147,880
Due to the Primary Government	332,663
Noncurrent liabilities:	
Due within one year	895,000
Accrued Compensated Absences	54,011
Due in more than one year	17,220,000
Unamortized Debt Premium	76,365
<b>TOTAL LIABILITIES</b>	<u><b>19,285,117</b></u>
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	8,799,898
Restricted for:	
Restricted - Redemption and Replacement Funding	1,250,534
Unrestricted	778,139
<b>TOTAL NET POSITION</b>	<u><b>\$ 10,828,571</b></u>

The Notes to the Financial Statements are an integral part of this statement.

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NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
DECEMBER 31, 2012

	Electric	Water	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ 335,487	\$ 335,487
Accounts Receivable	604,729	117,276	722,005
Due from Primary Government	14,640	13,895	28,535
Other Receivable	-	70,948	70,948
Inventory	213,473	13,749	227,222
Total Current Assets	<u>832,842</u>	<u>551,355</u>	<u>1,384,197</u>
<b>NONCURRENT ASSETS</b>			
Restricted Assets			
Reserve Account	339,367	901,010	1,240,377
Redemption Account	196,966	71,138	268,104
Water Hookup Charges	-	24,315	24,315
Capital Assets			
Land	16,005	82,925	98,930
Property and Equipment	14,982,468	20,088,394	35,070,862
Accumulated Depreciation	(4,562,638)	(3,692,256)	(8,254,894)
Other Assets			
Advance to Other Funds	-	597,357	597,357
Unamortized Issuance Costs	-	143,878	143,878
Unamortized Debt Discount	89,030	48,889	137,919
Total Noncurrent Assets	<u>11,061,198</u>	<u>18,265,650</u>	<u>29,326,848</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 11,894,040</b></u>	<u><b>\$ 18,817,005</b></u>	<u><b>\$30,711,045</b></u>

The Notes to the Financial Statements are an integral part of this statement.



NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
DECEMBER 31, 2012

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 173,994	\$ 619	\$ 174,613
Accrued Expenses	16,818	1,753	18,571
Customer Deposits	83,752	-	83,752
Deferred Rate Stabilization	147,880	-	147,880
Due to the Primary Government	332,491	172	332,663
Current Amount of Long-Term Debt	385,000	510,000	895,000
Payable from Restricted Assets			
Accrued Interest	<u>88,895</u>	<u>193,367</u>	<u>282,262</u>
Total Current Liabilities	<u>1,228,830</u>	<u>705,911</u>	<u>1,934,741</u>
<b>LONG-TERM LIABILITIES</b>			
Accrued Compensated Absences	33,032	20,979	54,011
Advance from Other Funds	597,357	-	597,357
Bonds Payable	6,855,000	10,365,000	17,220,000
Unamortized Debt Premium	<u>-</u>	<u>76,365</u>	<u>76,365</u>
Total Long-Term Liabilities	<u>7,485,389</u>	<u>10,462,344</u>	<u>17,947,733</u>
<b>TOTAL LIABILITIES</b>	<u>8,714,219</u>	<u>11,168,255</u>	<u>19,882,474</u>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	3,195,835	5,604,063	8,799,898
Restricted - Redemption and Replacement Funding	447,438	803,096	1,250,534
Unrestricted (Deficit)	<u>(463,452)</u>	<u>1,241,591</u>	<u>778,139</u>
Total Net Position	<u>3,179,821</u>	<u>7,648,750</u>	<u>10,828,571</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 11,894,040</u>	<u>\$ 18,817,005</u>	<u>\$30,711,045</u>

The Notes to the Financial Statements are an integral part of this statement.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
OPERATING REVENUES			
Operating Revenues	\$ <u>3,746,921</u>	\$ <u>1,421,678</u>	\$ <u>5,168,599</u>
OPERATING EXPENSES			
Operation and Maintenance	2,895,776	524,073	3,419,849
Depreciation	<u>499,197</u>	<u>573,643</u>	<u>1,072,840</u>
Total Operating Expenses	<u>3,394,973</u>	<u>1,097,716</u>	<u>4,492,689</u>
OPERATING INCOME	<u>351,948</u>	<u>323,962</u>	<u>675,910</u>
NON OPERATING REVENUE AND EXPENSES			
Interest Income	5,315	11,618	16,933
Antenna Rental	-	11,456	11,456
Miscellaneous Income	264,091	-	264,091
Fiscal Agent Charges	(1,950)	(1,900)	(3,850)
Interest Expense	(346,198)	(497,868)	(844,066)
Amortization Expense	<u>-</u>	<u>(8,707)</u>	<u>(8,707)</u>
Total Non Operating Revenue and Expenses	<u>(78,742)</u>	<u>(485,401)</u>	<u>(564,143)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	273,206	(161,439)	111,767
CAPITAL CONTRIBUTIONS			
Connection Charges	<u>1,300</u>	<u>51,271</u>	<u>52,571</u>
CHANGE IN NET POSITION	274,506	(110,168)	164,338
NET POSITION - January 1	<u>2,905,315</u>	<u>7,758,918</u>	<u>10,664,233</u>
NET POSITION - December 31	<u>\$ <u>3,179,821</u></u>	<u>\$ <u>7,648,750</u></u>	<u>\$ <u>10,828,571</u></u>

The Notes to the Financial Statements are an integral part of this statement.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from Customers	\$ 3,841,778	\$ 1,374,438	\$ 5,216,216
Payments to Vendors	(2,558,298)	(358,774)	(2,917,072)
Payments to Employees	(302,926)	(191,203)	(494,129)
Other Receipts and Payments	<u>262,141</u>	<u>9,556</u>	<u>271,697</u>
Net Cash Provided By Operating Activities	<u>1,242,695</u>	<u>834,017</u>	<u>2,076,712</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Due to Other Funds	<u>(24,626)</u>	<u>24,626</u>	<u>-</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(24,626)</u>	<u>24,626</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchase of Capital Assets	(515,878)	(287,559)	(803,437)
Principal Paid on Capital Debt	(370,000)	(490,000)	(860,000)
Interest Paid on Capital Debt	(344,235)	(517,251)	(861,486)
Contributions received for Construction	<u>1,300</u>	<u>51,271</u>	<u>52,571</u>
Net Cash Used By Capital and Related Financing Activities	<u>(1,228,813)</u>	<u>(1,243,539)</u>	<u>(2,472,352)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest Received	<u>5,314</u>	<u>11,618</u>	<u>16,932</u>
Net Cash Provided By Investing Activities	<u>5,314</u>	<u>11,618</u>	<u>16,932</u>
<b>NET DECREASE IN CASH</b>	(5,430)	(373,278)	(378,708)
<b>CASH AND CASH EQUIVALENTS - January 1</b>	<u>541,763</u>	<u>1,705,228</u>	<u>2,246,991</u>
<b>CASH AND CASH EQUIVALENTS - December 31</b>	<u>\$ 536,333</u>	<u>\$ 1,331,950</u>	<u>\$ 1,868,283</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Cash and Investments per Statement of Net Position	\$ -	\$ 335,487	\$ 335,487
Restricted Cash and Investments per Statement of Net Position	<u>536,333</u>	<u>996,463</u>	<u>1,532,796</u>
<b>CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS</b>	<u>\$ 536,333</u>	<u>\$ 1,331,950</u>	<u>\$ 1,868,283</u>

The Notes to the Financial Statements are an integral part of this statement.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Provided			
By Operating Activities			
Operating Income	\$ 351,948	\$ 323,962	\$ 675,910
Adjustments to Reconcile Operating Income (Loss) to Net			
Cash Provided By Operating Activities			
Depreciation	499,197	573,643	1,072,840
Changes in Assets and Liabilities			
Accounts Receivable	(6,506)	(44,787)	(51,293)
Due from the Primary Government	94,330	(2,453)	91,877
Inventory	28,193	(5,158)	23,035
Accounts Payable	(16,408)	(13,911)	(30,319)
Accrued Expenses	9,077	699	9,776
Accrued Compensated Absences	1,055	(1,861)	(806)
Due to the Primary Government	12,635	(5,673)	6,962
Customer Deposits	7,033	-	7,033
Other Revenues and Expenses	<u>262,141</u>	<u>9,556</u>	<u>271,697</u>
Net Cash Provided By Operating Activities	<u>\$ 1,242,695</u>	<u>\$ 834,017</u>	<u>\$ 2,076,712</u>

The Notes to the Financial Statements are an integral part of this statement.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. 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 Commission has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the Commission's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Based on this criteria, the North Branch Municipal Water and Light Commission has no 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.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the non fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these financial statements. 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. 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) capital grants and contributions. 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.

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 and expenses of that individual enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. Government-Wide and Fund Financial Statements (Cont.)

- 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 the financial statement users may be reported as a major fund.

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

The government-wide statements are prepared 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 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.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission's enterprise funds are charges to customers for sales and services. The Commission also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Restricted Assets

Certain funds of the Commission are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Commission.

G. Deposits and Investments

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The Commission provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund balances are eliminated on the government-wide financial statements.

The Commission may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Share of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities in (1) above.
3. General obligations of the State of Minnesota or any of its municipalities.
4. Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
5. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality, and maturing in 270 days or less.
6. Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000 a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
7. Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. Deposits and Investments (Cont.)

Investments for the Commission are reported 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.

The Commission has adopted an investment policy to establish objectives and specific guidelines that the Commission will use in the investment of Commission funds. The objectives of the policy are as follows:

- Safety of Principal - Safety of the principal is the foremost objective of the Commission. Each investment transaction must seek to first ensure that losses are minimized.
- Liquidity - The investment portfolio must remain sufficiently liquid to meet all operating costs that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.
- Yield - The investment portfolio must be maintained so as to attain a market-average rate of return.

The Commission will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The Commission will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields; however, no more than five percent of unreserved funds shall extend beyond three years unless ratified by the Commission Board to extend beyond that period.

For purposes of the statement of cash flows, the Commission considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the cash and investments allocated to the proprietary funds have original maturities of 90 days or less. Therefore, the entire balance in the proprietary funds is considered cash equivalents.

H. Accounts Receivable

Customer accounts receivable in the electric utility fund have been shown net of an allowance for uncollectible accounts of \$102,194. All significant receivable balances are expected to be collected within one year. The allowance account considers water and electric customer accounts can be placed on the tax roll for collection when delinquent. Unpaid water and electric customer accounts certified for the tax roll during 2012 and 2011 of \$28,535 and \$120,412, respectively, are reported as due from the primary government on the statement of net assets.



NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Inventories

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.

J. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

K. Capital Assets

Capital Assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable column in the government-wide financial statements. The Commission reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

As the Commission constructs or acquires assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the Commission values these capital assets at the estimated fair value of the item at the date of its donation. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

For financial statement purposes only, capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives: Buildings and structures: 50 years; Machinery and equipment: 5-33 years; Distribution system: 20-50 years.

L. 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, 2012 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

N. Charges for Services

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

O. 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 fund net position.

P. Net Position

Net position represent the difference between assets and liabilities. Net position are displayed in three components:

- (a) Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- (b) Restricted net position – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- (c) Unrestricted net position – All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

2. DEPOSITS AND INVESTMENTS

A. Cash and Cash Investments

Custodial Credit Risk - Custodial Credit Risk for deposits and investments is the risk that in the event of a bank failure the Commission’s deposits and investments may not be returned or the Commission will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes, the Commission maintains deposits at the depository banks, which are authorized by the Commission Board and are members of the Federal Reserve System.

Minnesota Statutes require that all Commission deposits be 110% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (140% in the case of mortgage notes pledged).

Authorized collateral includes the legal investments described by state statutes, as well as certain first mortgage notes, and certain other state and local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the Commission or in a financial institution other than that furnishing the collateral.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS (Cont.)

A. Cash and Cash Investments (Cont.)

At year end, the Commission's carrying amount of deposits was \$1,301,508 and the bank balance was \$1,246,269. Of the bank balance, \$500,198 was covered by federal depository insurance. Of the remaining balance, \$746,071 was collateralized with securities held by the pledging financial institution's trust department in the Commission's name.

B. Investments

As of December 31, 2012, the Commission had the following pooled investments that are insured or registered, or securities held by the Commission or its agent in the Commission's name.

<u>Type of Investment</u>	<u>Fair Value and Carrying Amount</u>	<u>Cost</u>	<u>Credit Quality Rating (1)</u>	<u>Segmented Time Distribution (2)</u>
Edward Jones	\$156,483	\$156,483	N/A	N/A
Wells Fargo Investment	\$410,139	\$410,139	N/A	N/A

(1) Ratings are provided by credit rating agencies where applicable to indicate associated credit risk. N/A indicates not applicable or available.

(2) Interest rate risk is disclosed using the segmented time distribution method.

C. Cash on Hand

Cash in the possession of the Commission, consisting of petty cash and change funds, totals \$150.

D. Cash and Investments Summary

A reconciliation of cash and investments as shown on the Statement of Net Position follows:

Total Deposits	\$ 1,301,508
Total Investments	566,622
Total Cash on Hand	<u>150</u>
	<u>\$ 1,868,280</u>

Statement of Net Position

Cash and Cash Investments	\$ 335,484
Restricted Assets	<u>1,532,796</u>
	<u>\$ 1,868,280</u>

E. 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 accounts.

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

2. DEPOSITS AND INVESTMENTS (Cont.)

E. 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.

The following is a list of restricted assets at December 31, 2012:

	Restricted <u>Assets</u>	Liabilities Payable from Restricted <u>Assets</u>	Net Restricted <u>Assets</u>
Bond Redemption Account	\$ 268,104	\$ 282,262	\$ (14,158)
Bond Reserve Account	1,240,377	-	1,240,377
Water Hookup Charge Account	<u>24,315</u>	<u>-</u>	<u>24,315</u>
Total Restricted Assets	<u>\$ 1,532,796</u>	<u>\$ 282,262</u>	<u>\$ 1,250,534</u>

3. DUE TO AND FROM OTHER FUNDS

Due to and from other funds at December 31, 2012, follows:

	Due from Other <u>Funds</u>	Due to Other <u>Funds</u>
Water Fund	\$ 597,357	\$ -
Electric Fund	<u>-</u>	<u>597,357</u>
	<u>\$ 597,357</u>	<u>\$ 597,357</u>

The interfund receivables and payables are for cash flow purposes and are expected to be liquidated by cash transfers from future available cash balances.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 for the Electric Utility was as follows:

	Balance January 1	Additions	Transfers/ Retirements	Balance December 31
Not Being Depreciated:				
Land	\$ 16,005	\$ -	\$ -	\$ 16,005
Construction in Progress	<u>3,606,093</u>	<u>419,009</u>	<u>(4,025,102)</u>	<u>-</u>
Subtotal	<u>3,622,098</u>	<u>419,009</u>	<u>(4,025,102)</u>	<u>16,005</u>
Other Capital Assets:				
Buildings and Structures	180,168	-	-	180,168
Equipment and Vehicles	1,906,934	-	4,025,102	5,932,036
Distribution System	<u>8,773,396</u>	<u>96,868</u>	<u>-</u>	<u>8,870,264</u>
Subtotal	<u>10,860,498</u>	<u>96,868</u>	<u>4,025,102</u>	<u>14,982,468</u>
Less: Accumulated Depreciation				
Buildings and Structures	68,965	3,603	-	72,568
Equipment and Vehicles	1,262,280	203,502	-	1,465,782
Distribution System	<u>2,732,196</u>	<u>292,092</u>	<u>-</u>	<u>3,024,288</u>
Subtotal	<u>4,063,441</u>	<u>499,197</u>	<u>-</u>	<u>4,562,638</u>
Net Other Capital Assets	<u>6,797,057</u>	<u>(402,329)</u>	<u>4,025,102</u>	<u>10,419,830</u>
Net Electric Plant	<u>\$ 10,419,155</u>	<u>\$ 16,680</u>	<u>\$ -</u>	<u>\$ 10,435,835</u>

Capital asset activity for the year ended December 31, 2012 for the Water Utility was as follows:

	Balance January 1	Additions	Transfers/ Retirements	Balance December 31
Not Being Depreciated:				
Land	\$ 82,925	\$ -	\$ -	\$ 82,925
Construction in Progress	<u>1,644,884</u>	<u>(64,330)</u>	<u>(1,580,554)</u>	<u>-</u>
Subtotal	<u>1,727,809</u>	<u>(64,330)</u>	<u>(1,580,554)</u>	<u>82,925</u>
Other Capital Assets:				
Buildings and Structures	1,801,354	-	-	1,801,354
Equipment and Vehicles	526,419	40,546	-	566,965
Distribution System	<u>16,139,521</u>	<u>-</u>	<u>1,580,554</u>	<u>17,720,075</u>
Subtotal	<u>18,467,294</u>	<u>40,546</u>	<u>1,580,554</u>	<u>20,088,394</u>
Less: Accumulated Depreciation				
Buildings and Structures	425,395	36,027	-	461,422
Equipment and Vehicles	238,041	29,399	-	267,440
Distribution System	<u>2,455,177</u>	<u>508,217</u>	<u>-</u>	<u>2,963,394</u>
Subtotal	<u>3,118,613</u>	<u>573,643</u>	<u>-</u>	<u>3,692,256</u>
Net Other Capital Assets	<u>15,348,681</u>	<u>(533,097)</u>	<u>1,580,554</u>	<u>16,396,138</u>
Net Water Plant	<u>\$ 17,076,490</u>	<u>\$ (597,427)</u>	<u>\$ -</u>	<u>\$ 16,479,063</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN CAPITAL ASSETS (Cont.)

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

Business-Type Activities:

Electric Utility	\$ 499,197
Water Utility	<u>573,643</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,072,840</u>

5. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Commission for the year ended December 31, 2012.

	<u>Balance</u> <u>January 1</u>	<u>Debt Issued</u>	<u>Debt</u> <u>Retired</u>	<u>Balance</u> <u>December 31</u>	<u>Current</u> <u>Amount</u>
Electric Utility					
Revenue Bonds	\$ 7,610,000	\$ -	\$ 370,000	\$ 7,240,000	\$ 385,000
Water Utility					
Revenue Bonds	<u>11,365,000</u>	<u>-</u>	<u>490,000</u>	<u>10,875,000</u>	<u>510,000</u>
Totals	<u>\$18,975,000</u>	<u>\$ -</u>	<u>\$ 860,000</u>	<u>\$18,115,000</u>	<u>\$ 895,000</u>

Bonds outstanding at December 31, 2012 are comprised of the following issues:

Business-Type Activities

\$1,675,000 Electric System Revenue Bonds of 2002, due in annual installments of \$60,000 to \$125,000 through December 1, 2022, plus interest at 1.9 to 5.25% due in semi-annual installments. \$ 1,010,000

\$2,790,000 Electric System Revenue Bonds of 2008B, due in annual installments of \$95,000 to \$215,000 through August 1, 2028, plus interest at 3.0 to 5.75% due in semi-annual installments. 2,395,000

\$1,035,000 Electric System Refunding Revenue Bonds of 2008C, due in annual installments of \$85,000 to \$115,000 through August 1, 2018, plus interest at 3.0 to 4.4% due in semi-annual installments. 655,000

\$3,350,000 Electric System Revenue Bonds of 2010A, due in annual installments of \$80,000 to \$210,000 through November 1, 2035, plus interest at 3.5 to 7.30% due in semi-annual installments. 3,180,000

\$3,000,000 Water System Revenue Bonds of 2004, due in annual installments of \$130,000 to \$210,000 through March 1, 2024, plus interest at 2.7 to 4.5% due in semi-annual installments. 2,035,000

\$7,080,000 Water System Revenue Bonds of 2007, due in annual installments of \$240,000 to \$550,000 through August 1, 2027, plus interest at 4.5 to 5.0% due in semi-annual installments. 6,050,000

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

5. CHANGES IN LONG-TERM DEBT (Cont.)

\$3,110,000 Water System Revenue Bonds of 2008A, due in annual installments of \$80,000 to \$205,000 through August 1, 2033, plus interest at 2.75 to 5.0% due in semi-annual installments.

	<u>2,790,000</u>
Total Long-Term Debt	<u>\$18,115,000</u>

The annual requirements to maturity for long-term liabilities are as follows:

	Revenue Bonds		
	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 895,000	\$ 827,671	\$ 1,722,671
2014	930,000	794,456	1,724,456
2015	960,000	758,262	1,718,262
2016	995,000	719,221	1,714,221
2017	1,040,000	677,732	1,717,732
2018-2022	5,340,000	2,691,359	8,031,359
2023-2027	5,195,000	1,425,414	6,620,414
2028-2032	1,945,000	467,260	2,412,260
2033-2037	<u>815,000</u>	<u>68,852</u>	<u>883,852</u>
Total	<u>\$ 18,115,000</u>	<u>\$ 8,430,227</u>	<u>\$ 26,545,227</u>

Interest expense was charged to functions/programs of the Commission as follows:

Business-Type Activities:

Electric	\$ 346,198
Water	<u>497,868</u>
Total Interest Expense - Business-Type Activities	<u>\$ 844,066</u>

Bond Covenant Disclosures

As of December 31, 2012 the Commission was not in compliance with provisions of the 2004, 2007, and 2008 water revenue bonds which require a 110% debt coverage requirement. The Commission increased rates during 2011. The Commission will continue to monitor rates and expenses.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

6. NET POSITION

Net position reported on the statement of net position at December 31, 2012 include the following:

Business-Type Activities

Invested in capital assets, net of related debt

Land	\$ 98,930
Other capital assets, net of accumulated depreciation	26,815,968
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(18,115,000)</u>
Total Invested in Capital Assets	<u>8,799,898</u>

Restricted

Debt Service	1,226,219
Water Hookup Charges	<u>24,315</u>
Total Restricted	<u>1,250,534</u>

Unrestricted

	<u>778,139</u>
Total Business-Type Activities Net Position	<u>\$ 10,828,571</u>

7. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rates 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 all GERF whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members



NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

A. Plan Description (Cont.)

years of service equal 90. Normal retirement age is 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 GERF and PEPFF. That report may be obtained on the Internet at [mnpera.org](http://mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, MN, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. 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 the state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.30%, respectively, of their annual covered salary in 2012. In 2012, the North Branch Municipal Water and Light Commission was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members.

The Commission's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$28,342, \$30,760 and \$33,219, respectively. The Commission's contributions were equal to the contractually required contributions for each year as set by state statute.

8. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2012.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

9. COMMITMENTS AND CONTINGENCIES

A. Risk Management

The Commission is exposed to various risk of loss related to torts, thefts of, damage to or destruction of assets, business interruption, errors and omissions, employee injuries and illness, and natural disasters for which the Commission carries insurance. Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City of North Branch pays an annual premium to LMCIT and the Commission reimburses the City of North Branch for its portion of the costs. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the Commission's coverage in any of the past three fiscal years.

Property and casualty insurance coverage is provided through a pooled self-insurance program through the LMCIT. The City of North Branch pays an annual premium to LMCIT. The Commission 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.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The Commission's management is not aware of any incurred but not reported claims.

B. Claims and Judgments

During 1998, the Commission entered into a service 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 of North Branch.

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.

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. A new 25 year contract with SMMPA is currently under consideration.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

10. OTHER INFORMATION

A. 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 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.

11. SUBSEQUENT EVENTS

Management evaluated all activity of North Branch Municipal Water and Light Commission through March 19, 2013 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

## SUPPLEMENTARY INFORMATION

**NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF BONDED INDEBTEDNESS  
DECEMBER 31, 2012**

	<b>\$3,110,000</b>	<b>\$2,790,000</b>	<b>\$1,035,000</b>	<b>\$7,080,000</b>	<b>\$3,000,000</b>	<b>\$1,675,000</b>	<b>\$3,350,000</b>	
	<b>Water</b>	<b>Electric</b>	<b>Electric</b>	<b>Water</b>	<b>Water System</b>	<b>Electric</b>	<b>Electric</b>	
	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	
	<b>Bonds of</b>	<b>Bonds of</b>	<b>Bonds of</b>	<b>Bonds of</b>	<b>Bonds of</b>	<b>Bonds of</b>	<b>Bonds of</b>	
	<b><u>2008A</u></b>	<b><u>2008B</u></b>	<b><u>2008C</u></b>	<b><u>2007</u></b>	<b><u>2004</u></b>	<b><u>2002</u></b>	<b><u>2010A</u></b>	<b><u>Totals</u></b>
<b>Bonds Payable</b>	<b>\$ 2,790,000</b>	<b>\$ 2,395,000</b>	<b>\$ 655,000</b>	<b>\$ 6,050,000</b>	<b>\$ 2,035,000</b>	<b>\$ 1,010,000</b>	<b>\$ 3,180,000</b>	<b>\$ 18,115,000</b>
<b>Future Interest</b>								
<b>Payable</b>	<u><b>1,704,482</b></u>	<u><b>1,242,946</b></u>	<u><b>97,556</b></u>	<u><b>2,573,002</b></u>	<u><b>570,165</b></u>	<u><b>303,712</b></u>	<u><b>1,938,365</b></u>	<u><b>8,430,228</b></u>
<b>Total</b>	<u><b>\$ 4,494,482</b></u>	<u><b>\$ 3,637,946</b></u>	<u><b>\$ 752,556</b></u>	<u><b>\$ 8,623,002</b></u>	<u><b>\$ 2,605,165</b></u>	<u><b>\$ 1,313,712</b></u>	<u><b>\$ 5,118,365</b></u>	<u><b>\$ 26,545,228</b></u>
<b>Payments to</b>								
<b>Maturity:</b>								
2013	213,138	228,630	132,730	576,472	216,703	130,052	224,946	1,722,671
2014	215,588	229,536	133,530	574,438	216,890	131,534	222,940	1,724,456
2015	212,528	224,916	134,130	576,838	216,758	132,622	220,470	1,718,262
2016	214,332	225,296	129,186	572,662	216,263	133,482	223,000	1,714,221
2017	215,818	225,062	134,240	573,038	220,250	128,924	220,400	1,717,732
2018	211,968	229,602	88,740	572,738	218,750	129,362	222,410	1,673,570
2019	212,868	228,688	-	574,988	217,050	129,412	224,270	1,587,276
2020	213,562	226,938	-	576,238	219,600	133,900	220,410	1,590,648
2021	213,778	229,938	-	576,488	216,388	132,862	221,548	1,591,002
2022	213,776	227,438	-	575,738	217,838	131,562	222,512	1,588,864
2023	213,376	229,688	-	573,988	213,950	-	223,222	1,454,224
2024	212,750	225,200	-	572,376	214,725	-	223,347	1,448,398
2025	216,250	225,426	-	574,812	-	-	222,432	1,238,920
2026	214,250	225,076	-	576,062	-	-	221,289	1,236,677
2027	212,000	229,150	-	576,126	-	-	224,919	1,242,195
2028	214,500	227,362	-	-	-	-	223,094	664,956
2029	216,500	-	-	-	-	-	221,042	437,542
2030	213,000	-	-	-	-	-	223,762	436,762
2031	214,250	-	-	-	-	-	221,027	435,277
2032	215,000	-	-	-	-	-	222,723	437,723
2033	215,250	-	-	-	-	-	223,945	439,195
2034	-	-	-	-	-	-	224,692	224,692
2035	-	-	-	-	-	-	219,965	219,965
<b>TOTALS</b>	<u><b>\$ 4,494,482</b></u>	<u><b>\$ 3,637,946</b></u>	<u><b>\$ 752,556</b></u>	<u><b>\$ 8,623,002</b></u>	<u><b>\$ 2,605,165</b></u>	<u><b>\$ 1,313,712</b></u>	<u><b>\$ 5,118,365</b></u>	<u><b>\$ 26,545,228</b></u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF DEBT MATURITIES  
DECEMBER 31, 2012

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

<u>Year</u>	<u>Interest Rate</u>	<u>February 1 Interest</u>	<u>August 1 Principal</u>	<u>August 1 Interest</u>	<u>Total</u>
2013	3.00%	\$ 64,069	\$ 85,000	\$ 64,069	\$ 213,138
2014	3.40%	62,794	90,000	62,794	215,588
2015	3.55%	61,264	90,000	61,264	212,528
2016	3.70%	59,666	95,000	59,666	214,332
2017	3.85%	57,909	100,000	57,909	215,818
2018	4.10%	55,984	100,000	55,984	211,968
2019	4.10%	53,934	105,000	53,934	212,868
2020	3.50%	51,781	110,000	51,781	213,562
2021	3.50%	49,389	115,000	49,389	213,778
2022	4.50%	46,888	120,000	46,888	213,776
2023	4.50%	44,188	125,000	44,188	213,376
2024	5.00%	41,375	130,000	41,375	212,750
2025	5.00%	38,125	140,000	38,125	216,250
2026	5.00%	34,625	145,000	34,625	214,250
2027	5.00%	31,000	150,000	31,000	212,000
2028	5.00%	27,250	160,000	27,250	214,500
2029	5.00%	23,250	170,000	23,250	216,500
2030	5.00%	19,000	175,000	19,000	213,000
2031	5.00%	14,625	185,000	14,625	214,250
2032	5.00%	10,000	195,000	10,000	215,000
2033	5.00%	5,125	205,000	5,125	215,250
Total		\$ 852,241	\$ 2,790,000	\$ 852,241	\$ 4,494,482

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF DEBT MATURITIES  
DECEMBER 31, 2012

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

<u>Year</u>	<u>Interest Rate</u>	<u>February 1 Interest</u>	<u>August 1 Principal</u>	<u>August 1 Interest</u>	<u>Total</u>
2013	3.90%	\$ 61,815	\$ 105,000	\$ 61,815	\$ 228,630
2014	4.20%	59,768	110,000	59,768	229,536
2015	4.20%	57,458	110,000	57,458	224,916
2016	4.55%	55,148	115,000	55,148	225,296
2017	4.55%	52,531	120,000	52,531	225,062
2018	5.00%	49,801	130,000	49,801	229,602
2019	5.00%	46,844	135,000	46,844	228,688
2020	5.00%	43,469	140,000	43,469	226,938
2021	5.00%	39,969	150,000	39,969	229,938
2022	5.00%	36,219	155,000	36,219	227,438
2023	5.75%	32,344	165,000	32,344	229,688
2024	5.75%	27,600	170,000	27,600	225,200
2025	5.75%	22,713	180,000	22,713	225,426
2026	5.75%	17,538	190,000	17,538	225,076
2027	5.75%	12,075	205,000	12,075	229,150
2028	5.75%	<u>6,181</u>	<u>215,000</u>	<u>6,181</u>	<u>227,362</u>
Total		\$ <u>621,473</u>	\$ <u>2,395,000</u>	\$ <u>621,473</u>	\$ <u>3,637,946</u>

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

<u>Year</u>	<u>Interest Rate</u>	<u>February 1 Interest</u>	<u>August 1 Principal</u>	<u>August 1 Interest</u>	<u>Total</u>
2013	4.00%	\$ 13,865	\$ 105,000	\$ 13,865	\$ 132,730
2014	4.00%	11,765	110,000	11,765	133,530
2015	4.30%	9,565	115,000	9,565	134,130
2016	4.30%	7,093	115,000	7,093	129,186
2017	4.40%	4,620	125,000	4,620	134,240
2018	4.40%	<u>1,870</u>	<u>85,000</u>	<u>1,870</u>	<u>88,740</u>
Total		\$ <u>48,778</u>	\$ <u>655,000</u>	\$ <u>48,778</u>	\$ <u>752,556</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF DEBT MATURITIES  
DECEMBER 31, 2012

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

<u>Year</u>	<u>Interest Rate</u>	<u>February 1 Interest</u>	<u>August 1 Principal</u>	<u>August 1 Interest</u>	<u>Total</u>
2013	4.15%	\$ 143,236	\$ 290,000	\$ 143,236	\$ 576,472
2014	4.20%	137,219	300,000	137,219	574,438
2015	4.50%	130,919	315,000	130,919	576,838
2016	4.50%	123,831	325,000	123,831	572,662
2017	4.50%	116,519	340,000	116,519	573,038
2018	5.00%	108,869	355,000	108,869	572,738
2019	5.00%	99,994	375,000	99,994	574,988
2020	5.00%	90,619	395,000	90,619	576,238
2021	5.00%	80,744	415,000	80,744	576,488
2022	5.00%	70,369	435,000	70,369	575,738
2023	4.75%	59,494	455,000	59,494	573,988
2024	4.75%	48,688	475,000	48,688	572,376
2025	4.75%	37,406	500,000	37,406	574,812
2026	4.75%	25,531	525,000	25,531	576,062
2027	4.75%	13,063	550,000	13,063	576,126
Total		\$ 1,286,501	\$ 6,050,000	\$ 1,286,501	\$ 8,623,002

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

<u>Year</u>	<u>Interest Rate</u>	<u>March 1 Interest</u>	<u>March 1 Principal</u>	<u>September 1 Interest</u>	<u>Total</u>
2013	3.50%	\$ 42,033	\$ 135,000	\$ 39,670	\$ 216,703
2014	3.50%	39,670	140,000	37,220	216,890
2015	3.70%	37,220	145,000	34,538	216,758
2016	3.75%	34,538	150,000	31,725	216,263
2017	4.00%	31,725	160,000	28,525	220,250
2018	4.00%	28,525	165,000	25,225	218,750
2019	4.00%	25,225	170,000	21,825	217,050
2020	4.50%	21,825	180,000	17,775	219,600
2021	4.50%	17,775	185,000	13,613	216,388
2022	4.50%	13,613	195,000	9,225	217,838
2023	4.50%	9,225	200,000	4,725	213,950
2024	4.50%	4,725	210,000	-	214,725
Total		\$ 306,099	\$ 2,035,000	\$ 264,066	\$ 2,605,165



NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF DEBT MATURITIES  
DECEMBER 31, 2012

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

<u>Year</u>	<u>Interest Rate</u>	<u>June 1 Interest</u>	<u>December 1 Principal</u>	<u>December 1 Interest</u>	<u>Total</u>
2013	4.40%	\$ 25,026	\$ 80,000	\$ 25,026	\$ 130,052
2014	4.60%	23,267	85,000	23,267	131,534
2015	4.60%	21,311	90,000	21,311	132,622
2016	4.80%	19,241	95,000	19,241	133,482
2017	4.80%	16,962	95,000	16,962	128,924
2018	4.95%	14,681	100,000	14,681	129,362
2019	5.25%	12,206	105,000	12,206	129,412
2020	5.25%	9,450	115,000	9,450	133,900
2021	5.25%	6,431	120,000	6,431	132,862
2022	5.25%	<u>3,281</u>	<u>125,000</u>	<u>3,281</u>	<u>131,562</u>
Total		\$ <u>151,856</u>	\$ <u>1,010,000</u>	\$ <u>151,856</u>	\$ <u>1,313,712</u>

\$3,350,000 Electric System Revenue Bonds, Series 2010A

<u>Year</u>	<u>Interest Rate</u>	<u>May 1 Interest</u>	<u>November 1 Principal</u>	<u>November 1 Interest</u>	<u>Total</u>
2013	3.25%	\$ 64,973	\$ 95,000	\$ 64,973	\$ 224,946
2014	4.00%	63,970	95,000	63,970	222,940
2015	4.00%	62,735	95,000	62,735	220,470
2016	4.00%	61,500	100,000	61,500	223,000
2017	4.60%	60,200	100,000	60,200	220,400
2018	4.60%	58,705	105,000	58,705	222,410
2019	5.40%	57,135	110,000	57,135	224,270
2020	5.40%	55,205	110,000	55,205	220,410
2021	5.40%	53,274	115,000	53,274	221,548
2022	5.50%	51,256	120,000	51,256	222,512
2023	6.00%	49,111	125,000	49,111	223,222
2024	7.00%	46,674	130,000	46,673	223,347
2025	7.00%	43,716	135,000	43,716	222,432
2026	7.00%	40,645	140,000	40,644	221,289
2027	7.00%	37,460	150,000	37,459	224,919
2028	7.00%	34,047	155,000	34,047	223,094
2031	7.00%	30,521	160,000	30,521	221,042
2032	7.00%	26,881	170,000	26,881	223,762
2033	7.30%	23,014	175,000	23,013	221,027
2034	7.30%	18,862	185,000	18,861	222,723
2035	7.30%	14,473	195,000	14,472	223,945
2036	7.30%	9,846	205,000	9,846	224,692
2037	7.30%	<u>4,983</u>	<u>210,000</u>	<u>4,982</u>	<u>219,965</u>
Total		\$ <u>969,186</u>	\$ <u>3,180,000</u>	\$ <u>969,179</u>	\$ <u>5,118,365</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF PURCHASED POWER AND SYSTEM PEAK LOAD  
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>Month</u>	<u>Date</u>	<u>Time of System</u>	<u>Peak</u>	<u>Purchased Power</u>	
		<u>Peak Load</u>	<u>Load</u>	<u>KWH</u>	<u>Total Cost</u>
January	1/3/2012	6:00 PM	4,160	2,365,320	\$ 181,397
February	2/7/2012	7:00 PM	3,860	2,113,800	171,574
March	3/19/2012	2:00 PM	3,500	2,086,240	173,701
April	4/25/2012	2:00 PM	3,700	1,978,080	165,049
May	5/23/2012	5:00 PM	4,040	2,192,200	177,654
June	6/27/2012	5:00 PM	6,300	2,574,420	204,615
July	7/17/2012	3:00 PM	6,340	3,290,020	239,565
August	8/30/2012	4:00 PM	6,020	2,626,300	213,187
September	9/4/2012	4:00 PM	6,340	2,148,040	180,137
October	10/3/2012	3:00 PM	3,880	2,103,200	160,339
November	11/28/2012	6:00 PM	4,040	2,113,660	160,136
December	12/20/2012	6:00 PM	4,100	2,351,980	170,395
		Totals		<u>27,943,260</u>	2,197,749
		Less: Excess Equity Distribution			<u>                    </u>
		Total Purchased Power Expense			\$ <u>2,197,749</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Capital Assets</u>			
	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31</u>
<u>Electric Utility</u>				
Land	\$ 16,005	\$ -	\$ -	\$ 16,005
Buildings	180,168	-	-	180,168
Equipment	1,789,241	4,025,103	-	5,814,344
Distribution System	6,025,570	96,868	-	6,122,438
Substations	2,747,826	-	-	2,747,826
Trucks	51,601	-	-	51,601
Computer	32,347	-	-	32,347
Office Equipment and Tools	33,744	-	-	33,744
Construction in Progress	<u>3,606,093</u>	<u>(3,606,093)</u>	<u>-</u>	<u>-</u>
Total Electric Utility	<u>14,482,595</u>	<u>515,878</u>	<u>-</u>	<u>14,998,473</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	126,258	-	-	126,258
Water Meters	287,072	40,546	-	327,618
Wells	4,454,756	1,304,786	-	5,759,542
Equipment	168,308	-	-	168,308
Computer	3,486	-	-	3,486
Water Tower	1,772,706	-	-	1,772,706
Trucks	46,025	-	-	46,025
Distribution System	11,557,567	275,768	-	11,833,335
Construction in Progress	<u>1,644,884</u>	<u>(1,644,884)</u>	<u>-</u>	<u>-</u>
Total Water Utility	<u>20,195,102</u>	<u>(23,784)</u>	<u>-</u>	<u>20,171,318</u>
Total Utilities	<u>\$ 29,662,072</u>	<u>\$ 5,015,625</u>	<u>\$ -</u>	<u>\$ 34,677,697</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>Rate</u>	<u>Accumulated Depreciation</u>			<u>Balance December 31</u>	<u>Net Capital Assets</u>
	<u>Balance January 1</u>	<u>Additions</u>	<u>Deletions</u>		
0%	\$ -	\$ -	\$ -	\$ -	\$ 16,005
2%	68,965	3,603	-	72,568	107,600
4%	1,144,588	203,502	-	1,348,090	4,466,254
3%	2,217,602	195,918	-	2,413,520	3,708,918
4%	514,594	96,174	-	610,768	2,137,058
10%	51,601	-	-	51,601	-
20%	32,347	-	-	32,347	-
10%	33,744	-	-	33,744	-
0%	-	-	-	-	-
	<u>4,063,441</u>	<u>499,197</u>	<u>-</u>	<u>4,562,638</u>	<u>10,435,835</u>
0%	-	-	-	-	82,925
2%	19,680	573	-	20,253	8,395
5%	21,527	-	-	21,527	-
5%	940	-	-	940	-
2%	104,065	2,526	-	106,591	19,667
5%	75,910	16,381	-	92,291	235,327
2%	377,309	115,191	-	492,500	5,267,042
5%	104,545	8,415	-	112,960	55,348
20%	3,486	-	-	3,486	-
2%	405,715	35,454	-	441,169	1,331,537
10%	32,572	4,603	-	37,175	8,850
3%	1,972,863	390,500	-	2,363,363	9,469,972
0%	-	-	-	-	-
	<u>3,118,612</u>	<u>573,643</u>	<u>-</u>	<u>3,692,255</u>	<u>16,479,063</u>
	<u>\$ 6,290,416</u>	<u>\$ 891,638</u>	<u>\$ -</u>	<u>\$ 7,182,054</u>	<u>\$ 27,495,643</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES

Sales of Electricity	
Residential	\$ 1,628,324
Commercial	1,304,736
Large Power	349,827
Street Lighting	17,795
Security Lighting	4,503
Total Sales of Electricity	<u>3,305,185</u>
Other Operating Revenues	
Penalties	85,220
Quick Start	<u>356,516</u>
Total Other Operating Revenues	<u>441,736</u>
Total Operating Revenues	<u>3,746,921</u>

OPERATING EXPENSES

Production Expenses	
Operation Supervision and Labor	56,171
Operation Supplies and Expenses	1,646
Maintenance of Equipment	8,612
Maintenance of Building	5,853
Total Production Expenses	<u>72,282</u>
Other Power Supply Expenses	
Purchased Power	<u>2,197,749</u>
Distribution Expenses	
Operation Labor	161,667
Warehouse Heat	3,051
Light Plant Heating	838
Building Maintenance	832
Operation Supplies and Expenses	53,372
Truck Expenses	11,244
Tools	2,619
Total Distribution Expenses	<u>233,623</u>
Territory Acquisition Expenses	
Territory Acquisition Expense	<u>7,525</u>
Demand Side Management Expense	
Demand Side Management	<u>15,055</u>
Accounting and Collecting Expenses	
Accounting and Collecting Labor	<u>52,358</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING EXPENSES (Cont.)

Administrative and General Expenses	
Administrative and General Salaries	33,785
Office Supplies and Expenses	18,313
Computer Supplies	2,665
Professional Services	9,938
Employee Pension and Benefits	132,204
Property Insurance	72,208
Communications	4,094
Dues and Subscriptions	8,709
Advertising and Promotions	618
Training and Safety	12,931
Clothing Allowance	3,449
Street Lighting	17,795
Miscellaneous General Expenses	<u>475</u>
Total Administrative and General Expenses	<u>317,184</u>
Total Operation and Maintenance Expenses	<u>2,895,776</u>
Depreciation	<u>499,197</u>
Total Operating Expenses	<u>3,394,973</u>

OPERATING INCOME	<u>\$ 351,948</u>
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NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
WATER UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES

Sales of Water	
Sale of Water	\$ <u>1,264,709</u>
Other Operating Revenues	
Penalties	17,366
Other Water Revenue	<u>139,603</u>
Total Other Operating Revenues	<u>156,969</u>
Total Operating Revenues	<u>1,421,678</u>

OPERATING EXPENSES

Production Expenses	
Operation Supervision and Labor	60,139
Natural Gas	943
Operation Supplies and Expenses	83,084
Maintenance of Equipment	2,272
Maintenance of Building	5,107
Water Supply Testing	<u>12,906</u>
Total Production Expenses	<u>164,451</u>
Distribution Expenses	
Operation Labor	43,060
Operation Supplies and Expenses	88,704
Truck Expenses	4,646
Tools	<u>212</u>
Total Distribution Expenses	<u>136,622</u>
Accounting and Collecting Expenses	
Accounting and Collecting Labor	52,358
Administrative and General Expenses	
Administrative and General Salaries	33,785
Office Supplies and Expenses	12,937
Professional Services	12,458
Employee Pension and Benefits	71,975
Property Insurance	23,646
Communications	5,530
Dues and Subscriptions	2,777
Training and Safety	1,754
Miscellaneous General Expenses	<u>5,780</u>
Total Administrative and General Expenses	<u>170,642</u>
Total Operation and Maintenance Expenses	524,073
Depreciation	<u>573,643</u>
Total Operating Expenses	<u>1,097,716</u>

OPERATING INCOME	\$ <u>323,962</u>
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NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
ELECTRIC AND WATER REVENUE BONDS DEBT COVERAGE  
FOR THE YEAR ENDED DECEMBER 31, 2012

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	\$ 3,746,921	\$ 1,421,678
Trunk Fees	-	102,436
Connection Charges	1,300	51,271
Investment Income	<u>5,315</u>	<u>11,618</u>
Total Gross Revenues	3,753,536	1,587,003
Operation and Maintenance Expenses	<u>(2,895,776)</u>	<u>(524,073)</u>
Net Revenues	\$ <u>857,760</u>	\$ <u>1,062,930</u>
Minimum required earnings per resolution:		
Annual debt service	\$ 714,160	\$ 1,007,280
Coverage factor	<u>110 %</u>	<u>110 %</u>
Minimum Required Net Revenues	\$ <u>785,576</u>	\$ <u>1,108,008</u>
Annual Debt Coverage	109 %	96 %



**DENNIS E. OBERLOH, LTD.**

**CERTIFIED PUBLIC ACCOUNTANT  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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 North Branch Municipal Water and Light Commission, as of and for the year ended December 31, 2012, which collectively comprise North Branch Municipal Water and Light Commission's basic financial statements and have issued our report thereon dated March 19, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered North Branch Municipal Water and Light Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for expressing an opinion on the effectiveness of the North Branch Municipal Water and Light Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Branch Municipal Water and Light Commission's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements in a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

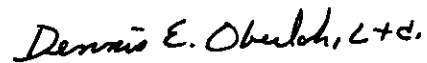
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. Items 12-01 and 12-02. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Branch Municipal Water and Light Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

North Branch Municipal Water and Light Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit North Branch Municipal Water and Light Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing body and management of North Branch Municipal Water and Light Commission, and for filing with the Office of the State Auditor, State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

  
Dennis E. Oberloh, Ltd.

March 19, 2013

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2012

**INTERNAL CONTROL FINDINGS**

**Audit Finding 12-01**

*Criteria:* The Commission does not have the internal resources to identify all journal entries required to maintain a general ledger and to prepare the full-disclosure financial statements in conformity with generally accepted accounting principles.

*Condition:* The Commission's personnel prepare periodic financial information for internal use that meets the needs of management and the Commission Board. However, the Commission does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by generally accepted accounting principles for external reporting. The Commission is aware of this significant deficiency, and obtains our assistance in the preparation of the Commission's annual financial statements.

*Cause:* The Commission does not have the internal expertise needed to handle all aspects of the external financial reporting.

*Effect:* The Commission's management is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and completed statements prior to distribution to the end users.

*Recommendations:* For entities of the Commission's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

*Managements Response:* Management agrees with the recommendation that it is not cost effective for the Commission to prepare the financial statements and maintain a working knowledge of the required disclosures.

**Audit Finding 12-02**

*Criteria:* Internal control that supports the Commission's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

*Condition:* The Commission does not have adequate segregation of accounting duties.

*Cause:* There are a limited number of office employees.

*Effect:* The lack of adequate segregation of accounting duties could adversely affect the Commission's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

*Recommendations:* For entities of the Commission's size, it generally is not practical to obtain the internal control that supports the adequate segregation of duties.

*Managements Response:* Management agrees with the recommendation that it is not cost effective for the Commission to maintain proper segregation of duties.

**DENNIS E. OBERLOH, LTD.**

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**AUDITOR'S REPORT ON LEGAL COMPLIANCE**

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

We have audited the basic financial statements of North Branch Municipal Water and Light Commission, as of and for the year ended December 31, 2012 and have issued our report thereon dated March 19, 2013.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, City 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, North Branch Municipal Water and Light Commission, Minnesota complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the governing body and management of North Branch Municipal Water and Light Commission, and for filing with the Office of the State Auditor, State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis E. Oberloh, Ltd.*  
Dennis E. Oberloh, Ltd.

March 19, 2013