

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

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

Report on Financial Statements

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, 2015, 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, 2015, 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.

Emphasis of Matter

Change in Accounting

As described in Note 10 to the basic financial statements, the Commission adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 68 "Accounting and Financial Reporting for Pensions" (an amendment of GASB Statement No. 27) and Statement No. 71 "Pension Transition for Contributions made Subsequent to the Measurement Date" (an amendment to GASB Statement No. 68) for the year ended December 31, 2015. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension reporting schedules on pages 28 - 29 be presented to supplement the basic financial statements. The North Branch Municipal Water and Light Commission, has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

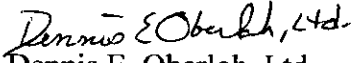
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 April 19, 2016 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.

April 19, 2016

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	<u>Business-Type Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 638,084
Receivables:	
Accounts Receivable	761,493
Due from Primary Government	91,399
Prepaid Expense	8,151
Inventory	231,241
Restricted Cash	2,701,353
Capital assets not being depreciated:	
Land	98,930
Other capital assets:	
Property and Equipment	35,434,381
Accumulated Depreciation	(11,498,587)
Unamortized Debt Discount	112,073
TOTAL ASSETS	<u>28,578,518</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to Net Pension Liability	<u>74,152</u>
LIABILITIES	
Accounts Payable	187,991
Accrued Expenses	18,007
Accrued Interest	250,576
Customer Deposits	105,849
Rate Stabilization	147,880
Due to the Primary Government	316,317
Noncurrent liabilities:	
Due within one year	995,000
Accrued Compensated Absences	50,860
Due in more than one year	14,335,000
Unamortized Debt Premium	56,589
Net Pension Liability	538,982
TOTAL LIABILITIES	<u>17,003,051</u>
DEFERRED INFLOWS OF RESOURCES	
Related to Net Pension Liability	<u>58,882</u>
NET POSITION	
Net Investment in Capital Assets	8,704,726
Restricted for:	
Restricted - Redemption and Replacement Funding	2,450,777
Unrestricted	435,234
TOTAL NET POSITION	<u>\$ 11,590,737</u>

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Program Revenues			Net Sources (Uses) and Changes in Net Position
	Expenses	Charges for Services	Capital Grants and Contributions	
Business-Type Activities:				Business-Type Activities Totals
Electric Utility	\$ 3,730,679	\$ 4,206,697	\$ 6,200	\$ 482,218
Water Utility	1,594,169	1,632,640	38,538	77,009
Total Business-Type Activities	<u>5,324,848</u>	<u>5,839,337</u>	<u>44,738</u>	<u>559,227</u>
General Revenues:				
Investment Income				5,626
Antenna Rental				27,654
Miscellaneous Income				1,600
Total General Revenues				<u>34,880</u>
Changes in Net Position				<u>594,107</u>
Net Position - January 1 as Originally Stated				11,505,081
Change in Accounting As Restated				<u>(508,451)</u>
Net Position - December 31				<u>10,996,630</u>
				<u>\$ 11,590,737</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, 2015

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 631,580	\$ 6,505	\$ 638,085
Accounts Receivable	624,124	137,367	761,491
Due from Primary Government	32,075	59,324	91,399
Prepaid Expense	5,218	2,933	8,151
Inventory	<u>218,224</u>	<u>13,016</u>	<u>231,240</u>
Total Current Assets	<u>1,511,221</u>	<u>219,145</u>	<u>1,730,366</u>
NONCURRENT ASSETS			
Restricted Assets			
Reserve Account	629,930	924,444	1,554,374
Redemption Account	371,897	571,665	943,562
Water Hookup Charges	-	203,417	203,417
Capital Assets			
Land	16,005	82,925	98,930
Property and Equipment	15,181,768	20,252,613	35,434,381
Accumulated Depreciation	(6,077,068)	(5,421,517)	(11,498,585)
Other Assets			
Unamortized Debt Discount	<u>71,964</u>	<u>40,109</u>	<u>112,073</u>
Total Noncurrent Assets	<u>10,194,496</u>	<u>16,653,656</u>	<u>26,848,152</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to Net Pension Liability	<u>45,233</u>	<u>28,919</u>	<u>74,152</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 11,750,950</u>	 <u>\$ 16,901,720</u>	 <u>\$ 28,652,670</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, 2015

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 174,675	\$ 13,316	\$ 187,991
Accrued Expenses	16,266	1,741	18,007
Customer Deposits	105,849	-	105,849
Rate Stabilization	147,880	-	147,880
Due to the Primary Government	313,937	2,380	316,317
Current Amount of Long-Term Debt	425,000	570,000	995,000
Payable from Restricted Assets			
Accrued Interest	<u>75,574</u>	<u>175,002</u>	<u>250,576</u>
Total Current Liabilities	<u>1,259,181</u>	<u>762,439</u>	<u>2,021,620</u>
LONG-TERM LIABILITIES			
Accrued Compensated Absences	28,092	22,768	50,860
Bonds Payable	5,620,000	8,715,000	14,335,000
Unamortized Debt Premium	-	56,589	56,589
Net Pension Liability	<u>328,778</u>	<u>210,204</u>	<u>538,982</u>
Total Long-Term Liabilities	<u>5,976,870</u>	<u>9,004,561</u>	<u>14,981,431</u>
TOTAL LIABILITIES	7,236,051	9,767,000	17,003,051
DEFERRED INFLOWS OF RESOURCES			
Related to Net Pension Liability	<u>35,918</u>	<u>22,964</u>	<u>58,882</u>
NET POSITION			
Net Investment in Capital Assets	3,075,705	5,629,021	8,704,726
Restricted - Redemption and Replacement Funding	926,253	1,524,524	2,450,777
Unrestricted (Deficit)	<u>477,023</u>	<u>(41,789)</u>	<u>435,234</u>
Total Net Position	<u>4,478,981</u>	<u>7,111,756</u>	<u>11,590,737</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 11,750,950</u>	<u>\$ 16,901,720</u>	<u>\$28,652,670</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, 2015

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
OPERATING REVENUES			
Operating Revenues	\$ <u>4,206,697</u>	\$ <u>1,632,640</u>	\$ <u>5,839,337</u>
OPERATING EXPENSES			
Operation and Maintenance	2,914,811	573,539	3,488,350
Depreciation	<u>505,902</u>	<u>575,343</u>	<u>1,081,245</u>
Total Operating Expenses	<u>3,420,713</u>	<u>1,148,882</u>	<u>4,569,595</u>
OPERATING INCOME	<u>785,984</u>	<u>483,758</u>	<u>1,269,742</u>
NON OPERATING REVENUE AND EXPENSES			
Investment Income	2,228	3,400	5,628
Antenna Rental	-	27,655	27,655
Miscellaneous Income	1,597	-	1,597
Fiscal Agent Charges	(1,950)	(1,900)	(3,850)
Interest Expense	<u>(308,016)</u>	<u>(443,387)</u>	<u>(751,403)</u>
Total Non Operating Revenue and Expenses	<u>(306,141)</u>	<u>(414,232)</u>	<u>(720,373)</u>
NET INCOME BEFORE CONTRIBUTIONS	479,843	69,526	549,369
CAPITAL CONTRIBUTIONS			
Connection Charges	<u>6,200</u>	<u>38,538</u>	<u>44,738</u>
CHANGE IN NET POSITION	<u>486,043</u>	<u>108,064</u>	<u>594,107</u>
NET POSITION - January 1			
Originally Stated	4,303,093	7,201,988	11,505,081
Change in Accounting	<u>(310,155)</u>	<u>(198,296)</u>	<u>(508,451)</u>
As Restated	<u>3,992,938</u>	<u>7,003,692</u>	<u>10,996,630</u>
NET POSITION - December 31	<u>\$ 4,478,981</u>	<u>\$ 7,111,756</u>	<u>\$ 11,590,737</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, 2015

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 4,214,405	\$ 1,646,195	\$ 5,860,600
Payments to Vendors	(2,428,484)	(259,652)	(2,688,136)
Payments to Employees	(484,454)	(310,270)	(794,724)
Other Receipts and Payments	<u>1,597</u>	<u>27,655</u>	<u>29,252</u>
Net Cash Provided By Operating Activities	<u>1,303,064</u>	<u>1,103,928</u>	<u>2,406,992</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	(33,819)	(67,112)	(100,931)
Principal Paid on Capital Debt	(410,000)	(550,000)	(960,000)
Interest Paid on Capital Debt	(309,018)	(458,021)	(767,039)
Contributions received for Construction	<u>6,200</u>	<u>38,886</u>	<u>45,086</u>
Net Cash Used By Capital and Related Financing Activities	<u>(746,637)</u>	<u>(1,036,247)</u>	<u>(1,782,884)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Received	<u>2,227</u>	<u>3,400</u>	<u>5,627</u>
Net Cash Provided By Investing Activities	<u>2,227</u>	<u>3,400</u>	<u>5,627</u>
NET INCREASE IN CASH	558,654	71,081	629,735
CASH AND CASH EQUIVALENTS - January 1	<u>1,074,753</u>	<u>1,634,950</u>	<u>2,709,703</u>
CASH AND CASH EQUIVALENTS - December 31	<u>\$ 1,633,407</u>	<u>\$ 1,706,031</u>	<u>\$ 3,339,438</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Cash and Investments per Statement of Net Position	\$ 631,580	\$ 6,505	\$ 638,085
Restricted Cash and Investments per Statement of Net Position	<u>1,001,827</u>	<u>1,699,526</u>	<u>2,701,353</u>
CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	<u>\$ 1,633,407</u>	<u>\$ 1,706,031</u>	<u>\$ 3,339,438</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, 2015

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Provided			
By Operating Activities			
Operating Income	\$ 785,984	\$ 483,758	\$ 1,269,742
Adjustments to Reconcile Operating Income to Net Cash			
Provided By Operating Activities			
Depreciation	505,902	575,343	1,081,245
Noncash Pension Expense	9,308	5,953	15,261
Changes in Assets and Liabilities			
Accounts Receivable	16,041	49,848	65,889
Due from the Primary Government	(23,744)	(38,673)	(62,417)
Inventory	(683)	629	(54)
Prepaid Expense	(5,218)	(2,933)	(8,151)
Accounts Payable	(13,991)	(2,282)	(16,273)
Accrued Expenses	9,246	(1,547)	7,699
Accrued Compensated Absences	223	3,797	4,020
Due to the Primary Government	14,115	2,380	16,495
Customer Deposits	4,284	-	4,284
Other Revenues and Expenses	<u>1,597</u>	<u>27,655</u>	<u>29,252</u>
Net Cash Provided By Operating Activities	<u>\$ 1,303,064</u>	<u>\$ 1,103,928</u>	<u>\$ 2,406,992</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 2015 and 2014 of \$38,519 and \$17,164, respectively, are reported as due from the primary government on the statement of net position.

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, 2015 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.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Charges for Services

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

P. 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.

Q. Net Position

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

- (a) Net investment in capital assets – 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).

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS (Cont.)

A. Cash and Cash Investments (Cont.)

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.

At year end, the Commission's carrying amount of deposits was \$2,886,619 and the bank balance was \$2,911,162. Of the bank balance, \$750,000 was covered by federal depository insurance. Of the remaining balance, \$2,161,162 was collateralized with securities held by the pledging financial institution's trust department in the Commission's name.

B. Investments

As of December 31, 2015, 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	\$37,237	\$37,237	N/A	N/A
Wells Fargo Investment	\$415,431	\$415,431	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	\$ 2,886,619
Total Investments	452,668
Total Cash on Hand	150
	<u>\$ 3,339,437</u>
Statement of Net Position	
Cash and Cash Investments	\$ 638,084
Restricted Assets	<u>2,701,353</u>
	<u>\$ 3,339,437</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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS (Cont.)

E. Restricted Assets (Cont.)

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.

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, 2015:

	Restricted Assets	Liabilities Payable from Restricted Assets	Net Restricted Assets
Bond Redemption Account	\$ 943,562	\$ 250,576	\$ 692,986
Bond Reserve Account	1,554,374	-	1,554,374
Water Hookup Charge Account	<u>203,417</u>	<u>-</u>	<u>203,417</u>
Total Restricted Assets	<u>\$ 2,701,353</u>	<u>\$ 250,576</u>	<u>\$ 2,450,777</u>

3. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 for the Electric Utility was as follows:

	Balance January 1	Additions	Transfers/ Retirements	Balance December 31
Not Being Depreciated:				
Land	\$ 16,005	\$ -	\$ -	\$ 16,005
Subtotal	<u>16,005</u>	<u>-</u>	<u>-</u>	<u>16,005</u>
Other Capital Assets:				
Buildings and Structures	282,362	-	-	282,362
Equipment and Vehicles	5,938,936	-	-	5,938,936
Distribution System	<u>8,926,651</u>	<u>33,819</u>	<u>-</u>	<u>8,960,470</u>
Subtotal	<u>15,147,949</u>	<u>33,819</u>	<u>-</u>	<u>15,181,768</u>
Less: Accumulated Depreciation				
Buildings and Structures	79,774	3,603	-	83,377
Equipment and Vehicles	1,880,183	207,320	-	2,087,503
Distribution System	<u>3,611,209</u>	<u>294,979</u>	<u>-</u>	<u>3,906,188</u>
Subtotal	<u>5,571,166</u>	<u>505,902</u>	<u>-</u>	<u>6,077,068</u>
Net Other Capital Assets	<u>9,576,783</u>	<u>(472,083)</u>	<u>-</u>	<u>9,104,700</u>
Net Electric Plant	<u>\$ 9,592,788</u>	<u>\$ (472,083)</u>	<u>\$ -</u>	<u>\$ 9,120,705</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

3. CHANGES IN CAPITAL ASSETS (Cont.)

Capital asset activity for the year ended December 31, 2015 for the Water Utility was as follows:

	Balance <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	Balance <u>December 31</u>
Not Being Depreciated:				
Land	\$ 82,925	\$ -	\$ -	\$ 82,925
Subtotal	<u>82,925</u>	<u>-</u>	<u>-</u>	<u>82,925</u>
Other Capital Assets:				
Buildings and Structures	1,801,354	49,900	-	1,851,254
Equipment and Vehicles	662,263	17,212	-	679,475
Distribution System	<u>17,721,884</u>	<u>-</u>	<u>-</u>	<u>17,721,884</u>
Subtotal	<u>20,185,501</u>	<u>67,112</u>	<u>-</u>	<u>20,252,613</u>
Less: Accumulated Depreciation				
Buildings and Structures	533,475	37,025	-	570,500
Equipment and Vehicles	332,836	30,066	-	362,902
Distribution System	<u>3,979,863</u>	<u>508,252</u>	<u>-</u>	<u>4,488,115</u>
Subtotal	<u>4,846,174</u>	<u>575,343</u>	<u>-</u>	<u>5,421,517</u>
Net Other Capital Assets	<u>15,339,327</u>	<u>(508,231)</u>	<u>-</u>	<u>14,831,096</u>
Net Water Plant	<u>\$ 15,422,252</u>	<u>\$ (508,231)</u>	<u>\$ -</u>	<u>\$ 14,914,021</u>

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

Business-Type Activities:	
Electric Utility	\$ 505,902
Water Utility	<u>575,343</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,081,245</u>

4. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Commission for the year ended December 31, 2015.

	Balance <u>January 1</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	Balance <u>December 31</u>	Current <u>Amount</u>
Electric Utility					
Revenue Bonds	\$ 6,455,000	\$ -	\$ 410,000	\$ 6,045,000	\$ 425,000
Water Utility					
Revenue Bonds	<u>9,835,000</u>	<u>-</u>	<u>550,000</u>	<u>9,285,000</u>	<u>570,000</u>
Totals	<u>\$16,290,000</u>	<u>\$ -</u>	<u>\$ 960,000</u>	<u>\$15,330,000</u>	<u>\$ 995,000</u>

The Commission issues Revenue Bonds to provide financing for infrastructure and facility construction. The respective Water and Electric Funds are used to liquidate the outstanding business-type activities Revenue Bonds.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

Bonds outstanding at December 31, 2015 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. \$ 755,000

\$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. 2,070,000

\$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. 325,000

\$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. 2,895,000

\$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. 1,615,000

\$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. 5,145,000

\$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. 2,525,000

Total Long-Term Debt \$15,330,000

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>
2016	\$ 995,000	\$ 719,221	\$ 1,714,221
2017	1,040,000	677,732	1,717,732
2018	1,040,000	633,570	1,673,570
2019	1,000,000	587,276	1,587,276
2020	1,050,000	540,648	1,590,648
2021-2025	5,390,000	1,931,408	7,321,408
2026-2030	3,260,000	758,132	4,018,132
2031-2035	<u>1,555,000</u>	<u>201,851</u>	<u>1,756,851</u>
Total	<u>\$ 15,330,000</u>	<u>\$ 6,049,838</u>	<u>\$ 21,379,838</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

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

Business-Type Activities:	
Electric	\$ 308,016
Water	443,387
Total Interest Expense - Business-Type Activities	<u>\$ 751,403</u>

5. NET POSITION

Net position reported on the statement of net position at December 31, 2015 include the following:

Business-Type Activities

Net Investment in Capital Assets

Land	\$ 98,930
Other capital assets, net of accumulated depreciation	23,935,796
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(15,330,000)</u>
Total Net Investment in Capital Assets	<u>8,704,726</u>

Restricted

Debt Service	2,247,360
Water Hookup Charges	<u>203,417</u>
Total Restricted	<u>2,450,777</u>

Unrestricted

	<u>435,234</u>
Total Business-Type Activities Net Position	<u>\$ 11,590,737</u>

6. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

The North Branch Municipal Water and Light Commission, Minnesota participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the North Branch Municipal Water and Light Commission, Minnesota are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following 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.

1. GERS Benefits

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% of average salary for each of the first ten years of service and 2.7% 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 ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by that state legislature

1. GERS Contributions

Basic Plan members and Coordinated Plan members were required to contribute -% and -%, respectively, of their annual covered salary in 2015. The North Branch Municipal Water and Light Commission, Minnesota was required to contribute 11.78% for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The North Branch Municipal Water and Light Commission, Minnesota contributions to the GERS for the year ended December 31, 2015, were \$45,720. The North Branch Municipal Water and Light Commission, Minnesota contributions were equal to the required contributions as set by state statute.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

D. Pension Costs

1. **GERF Pension Costs**

At December 31, 2015, the North Branch Municipal Water and Light Commission, Minnesota reported a liability of \$538,982 for its proportionate share of the GERP's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The North Branch Municipal Water and Light Commission, Minnesota proportion of the net pension liability was based on the North Branch Municipal Water and Light Commission, Minnesota contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the North Branch Municipal Water and Light Commission, Minnesota proportion was 0.0104%.

For the year ended December 31, 2015, the North Branch Municipal Water and Light Commission, Minnesota recognized pension expense of \$61,276 for its proportionate share of the GERP's pension expense.

At December 31, 2015, the North Branch Municipal Water and Light Commission, Minnesota reported its proportionate share of the GERP's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 27,174
Difference between projected and actual investment earnings	51,023	-
Changes in proportion	-	31,708
Contributions paid to PERA subsequent to the measurement date	<u>23,129</u>	<u>-</u>
Total	<u>\$ 74,152</u>	<u>\$ 58,882</u>

\$23,129 reported as deferred outflows of resources related to pensions resulting from North Branch Municipal Water and Light Commission, Minnesota contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Pension Expense Amount</u>
2016	\$ (6,872)
2017	\$ (6,871)
2018	\$ (6,871)
2019	\$ 12,755
2020	\$ -
Thereafter	\$ -

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

G. Pension Liability Sensitivity

The following presents the North Branch Municipal Water and Light Commission, Minnesota proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the North Branch Municipal Water and Light Commission, Minnesota proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
North Branch Municipal Water and Light Commission proportionate share of the GERF Net Pension Liability:	\$ 847,471	\$ 538,982	\$ 284,217

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet 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.

7. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2015.

8. 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.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

8. COMMITMENTS AND CONTINGENCIES (Cont.)

B. Claims and Judgments

During 2013, the Commission entered into severance agreements with the Commission's general manager whereby the Commission would compensate the general manager in an amount equal to twelve months wages as severance pay if employment is terminated for any reason, other than improper or illegal acts within the confines of the position.

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 2050. 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 August 17, 2010, the Commission entered a 25 year 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. Under terms of the agreement, SMMPA is responsible for the fuel costs and North Branch Municipal Water and Light Commission is responsible for all other costs associated with the operation, maintenance, repairs, and other liabilities of operating the Diesel Generating Facilities.

9. 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.

10. ACCOUNTING CHANGE

Governmental Accounting Standard Board (GASB) Statement No. 68, *"Accounting and Financial Reporting for Pensions"* (an amendment of GASB Statement No. 27) will improve accounting and financial reporting by state and local governments for pensions in addition to information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB Statement No. 71 *"Pension Transition for Contributions made Subsequent to the Measurement Date"* (an amendment to GASB Statement No. 68) addresses an issue regarding application of the transition provisions of Statement No. 68, related to the amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The City implemented these standards for the fiscal year end December 31, 2015.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NOTES TO FINANCIAL STATEMENTS

10. ACCOUNTING CHANGE (Cont.)

The implementation of GASB Statement No. 68 and 71 resulted in the reclassification of certain funds and restatement of the City's financial statements. This statement had the following effect on fund equity of the Electric and Water funds as they were previously reported:

<u>Fund</u>	Fund Equity 12/31/2014 as		Fund Equity 1/1/2015 as
	Previously <u>Reported</u>	Prior Period <u>Restatement (1)</u>	
Electric Fund	\$ 4,303,093	\$ (310,155)	\$ 3,992,938
Water Fund	<u>7,201,988</u>	<u>(198,296)</u>	<u>7,003,692</u>
Business-Type Activities	<u>\$ 11,505,081</u>	<u>\$ (508,451)</u>	<u>\$ 10,996,630</u>

- (1) Recognition of Net Pension Liability as of June 30, 2014 and Deferred Outflows of Resources related to contributions paid during 2014 for the measurement period July 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015

Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset)	Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0104 %	538,982	621,455	86.73 %	78.19 %

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015

Fiscal Year Ended	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contributions Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
December 31, 2015	\$ 45,720	\$ 45,720	-	\$ 609,600	7.50 %

SUPPLEMENTARY INFORMATION

**NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
SCHEDULE OF BONDED INDEBTEDNESS
DECEMBER 31, 2015**

	\$3,110,000 Water Revenue Bonds of <u>2008A</u>	\$2,790,000 Electric Revenue Bonds of <u>2008B</u>	\$1,035,000 Electric Revenue Bonds of <u>2008C</u>	\$7,080,000 Water Revenue Bonds of <u>2007</u>	\$3,000,000 Water System Revenue Bonds of <u>2004</u>	\$1,675,000 Electric Revenue Bonds of <u>2002</u>	\$3,350,000 Electric Revenue Bonds of <u>2010A</u>	Totals
Bonds Payable	\$2,525,000	\$2,070,000	\$325,000	\$5,145,000	\$1,615,000	\$755,000	\$2,895,000	\$15,330,000
Future Interest Payable	<u>1,328,228</u>	<u>884,864</u>	<u>27,166</u>	<u>1,750,254</u>	<u>339,814</u>	<u>164,504</u>	<u>1,555,008</u>	<u>6,049,838</u>
Total	<u>\$3,853,228</u>	<u>\$2,954,864</u>	<u>\$352,166</u>	<u>\$6,895,254</u>	<u>\$1,954,814</u>	<u>\$919,504</u>	<u>\$4,450,008</u>	<u>\$21,379,838</u>
Payments to Maturity:								
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	-	-	-	-	-	-	219,964	219,964
TOTALS	<u>\$3,853,228</u>	<u>\$2,954,864</u>	<u>\$352,166</u>	<u>\$6,895,254</u>	<u>\$1,954,814</u>	<u>\$919,504</u>	<u>\$4,450,008</u>	<u>\$21,379,838</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
SCHEDULE OF DEBT MATURITIES
DECEMBER 31, 2015

\$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>
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		<u>\$ 664,114</u>	<u>\$ 2,525,000</u>	<u>\$ 664,114</u>	<u>\$ 3,853,228</u>

\$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>
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%	6,181	215,000	6,181	227,362
Total		<u>\$ 442,432</u>	<u>\$ 2,070,000</u>	<u>\$ 442,432</u>	<u>\$ 2,954,864</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
SCHEDULE OF DEBT MATURITIES
DECEMBER 31, 2015

\$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>
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>\$ 13,583</u>	<u>\$ 325,000</u>	<u>\$ 13,583</u>	<u>\$ 352,166</u>

\$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>
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%	<u>13,063</u>	<u>550,000</u>	<u>13,063</u>	<u>576,126</u>
Total		<u>\$ 875,127</u>	<u>\$ 5,145,000</u>	<u>\$ 875,127</u>	<u>\$ 6,895,254</u>

\$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>
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%	<u>4,725</u>	<u>210,000</u>	<u>-</u>	<u>214,725</u>
Total		<u>\$ 187,176</u>	<u>\$ 1,615,000</u>	<u>\$ 152,638</u>	<u>\$ 1,954,814</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
SCHEDULE OF DEBT MATURITIES
DECEMBER 31, 2015

\$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>
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%	3,281	125,000	3,281	131,562
Total		<u>\$ 82,252</u>	<u>\$ 755,000</u>	<u>\$ 82,252</u>	<u>\$ 919,504</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>
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
2029	7.00%	30,521	160,000	30,521	221,042
2030	7.00%	26,881	170,000	26,881	223,762
2031	7.30%	23,014	175,000	23,013	221,027
2032	7.30%	18,862	185,000	18,861	222,723
2033	7.30%	14,473	195,000	14,472	223,945
2034	7.30%	9,846	205,000	9,846	224,692
2035	7.30%	4,983	210,000	4,981	219,964
Total		<u>\$ 777,508</u>	<u>\$ 2,895,000</u>	<u>\$ 777,500</u>	<u>\$ 4,450,008</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
SCHEDULE OF PURCHASED POWER AND SYSTEM PEAK LOAD
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Month</u>	<u>Date</u>	<u>Time of System</u> <u>Peak Load</u>	<u>Peak</u> <u>Load</u>	<u>Purchased Power</u> <u>KWH</u>	<u>Total Cost</u>
January	1/7/2015	6:00 PM	4,460	2,486,260	\$ 187,062
February	2/11/2015	7:00 PM	3,920	2,274,740	177,337
March	3/3/2015	7:00 PM	4,000	2,224,560	176,697
April	4/1/2015	2:00 PM	3,420	1,995,940	162,855
May	5/28/2015	12:00 PM	4,460	2,076,860	167,482
June	6/9/2015	4:00 PM	5,880	2,418,740	194,798
July	7/13/2015	4:00 PM	6,180	2,862,260	217,762
August	8/14/2015	4:00 PM	6,700	2,628,980	212,174
September	9/3/2015	4:00 PM	6,280	2,461,820	194,795
October	10/8/2015	12:00 PM	3,720	2,114,360	161,703
November	11/30/2015	6:00 PM	3,960	2,093,820	160,700
December	12/17/2015	6:00 PM	4,060	<u>2,350,860</u>	<u>173,021</u>
		Totals		<u>27,989,200</u>	<u>2,186,386</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2015

	<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	5,923,434	-	-	5,923,434
Distribution System	6,178,826	33,819	-	6,212,645
Substations	2,747,827	-	-	2,747,827
Trucks	51,601	-	-	51,601
Computer	32,347	-	-	32,347
Office Equipment and Tools	33,746	-	-	33,746
Total Electric Utility	<u>15,163,954</u>	<u>33,819</u>	<u>-</u>	<u>15,197,773</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	128,068	-	-	128,068
Water Meters	416,017	17,212	-	433,229
Wells	5,759,542	-	-	5,759,542
Equipment	175,208	-	-	175,208
Computer	3,486	-	-	3,486
Water Tower	1,772,706	49,900	-	1,822,606
Trucks	46,025	-	-	46,025
Distribution System	<u>11,833,334</u>	<u>-</u>	<u>-</u>	<u>11,833,334</u>
Total Water Utility	<u>20,268,426</u>	<u>67,112</u>	<u>-</u>	<u>20,335,538</u>
Total Utilities	<u>\$ 26,191,860</u>	<u>\$ 67,112</u>	<u>\$ -</u>	<u>\$ 26,258,972</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Rate</u>	<u>Balance January 1</u>	<u>Accumulated Depreciation</u>		<u>Balance December 31</u>	<u>Net Capital Assets</u>
		<u>Additions</u>	<u>Deletions</u>		
0%	\$ -	\$ -	\$ -	\$ -	\$ 16,005
2%	79,774	3,603	-	83,377	96,791
4%	1,762,489	207,320	-	1,969,809	3,953,625
3%	2,808,094	198,805	-	3,006,899	3,205,746
4%	803,115	96,174	-	899,289	1,848,538
10%	51,601	-	-	51,601	-
20%	32,347	-	-	32,347	-
10%	33,746	-	-	33,746	-
	<u>5,571,166</u>	<u>505,902</u>	<u>-</u>	<u>6,077,068</u>	<u>9,120,705</u>
0%	-	-	-	-	82,925
2%	21,399	573	-	21,972	6,676
5%	21,527	-	-	21,527	-
5%	940	-	-	940	-
2%	111,679	2,562	-	114,241	13,827
5%	131,307	21,661	-	152,968	280,261
2%	722,882	115,191	-	838,073	4,921,469
5%	130,135	8,760	-	138,895	36,313
20%	3,486	-	-	3,486	-
2%	512,077	36,452	-	548,529	1,274,077
10%	46,381	(356)	-	46,025	-
3%	<u>3,144,361</u>	<u>390,500</u>	<u>-</u>	<u>3,534,861</u>	<u>8,298,473</u>
	<u>4,846,174</u>	<u>575,343</u>	<u>-</u>	<u>5,421,517</u>	<u>14,914,021</u>
	<u>\$ 6,608,663</u>	<u>\$ 782,663</u>	<u>\$ -</u>	<u>\$ 7,391,326</u>	<u>\$ 18,867,646</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

OPERATING REVENUES

Sales of Electricity

Residential	\$ 1,766,707
Commercial	974,810
Large Power	1,000,608
Security Lighting	<u>21,019</u>
Total Sales of Electricity	<u>3,763,144</u>

Other Operating Revenues

Penalties	83,553
Quick Start	<u>360,000</u>
Total Other Operating Revenues	<u>443,553</u>
Total Operating Revenues	<u>4,206,697</u>

OPERATING EXPENSES

Production Expenses

Operation Supervision and Labor	105,913
Natural Gas	1,379
Maintenance of Equipment	1,956
Maintenance of Building	1,283
Fuel Oil	<u>54,181</u>
Total Production Expenses	<u>164,712</u>

Other Power Supply Expenses

Purchased Power	<u>2,186,386</u>
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Distribution Expenses

Operation Labor	289,411
Warehouse Heat	1,629
Light Plant Heating	4,169
Building Maintenance	598
Operation Supplies and Expenses	28,547
Truck Expenses	7,648
Tools	<u>1,101</u>
Total Distribution Expenses	<u>333,103</u>

Territory Acquisition Expenses

Territory Acquisition Expense	<u>2,666</u>
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Demand Side Management Expense

Demand Side Management	<u>10,557</u>
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Accounting and Collecting Expenses

Accounting and Collecting Labor	<u>78,716</u>
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NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

OPERATING EXPENSES (Cont.)

Administrative and General Expenses	
Administrative and General Salaries	19,463
Office Supplies and Expenses	17,910
Computer Supplies	1,000
Professional Services	20,889
Employee Pension and Benefits	6,102
Property Insurance	17,563
Communications	4,142
Dues and Subscriptions	12,141
Advertising and Promotions	477
Training and Safety	15,808
Clothing Allowance	1,763
Street Lighting	17,795
Miscellaneous General Expenses	<u>3,618</u>
Total Administrative and General Expenses	<u>138,671</u>
Total Operation and Maintenance Expenses	2,914,811
Depreciation	<u>505,902</u>
Total Operating Expenses	<u>3,420,713</u>

OPERATING INCOME	<u>\$ 785,984</u>
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NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
WATER UTILITY OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

OPERATING REVENUES

Sales of Water	
Sale of Water	\$ <u>1,592,061</u>
Other Operating Revenues	
Penalties	21,066
Other Water Revenue	<u>19,513</u>
Total Other Operating Revenues	<u>40,579</u>
Total Operating Revenues	<u>1,632,640</u>

OPERATING EXPENSES

Production Expenses	
Operation Supervision and Labor	100,482
Natural Gas	4,664
Operation Supplies and Expenses	-
Maintenance of Equipment	737
Maintenance of Building	326
Water Supply Testing	<u>94,788</u>
Total Production Expenses	<u>200,997</u>
Distribution Expenses	
Operation Labor	121,135
Warehouse Heat	2,174
Operation Supplies and Expenses	42,386
Truck Expenses	5,273
Tools	<u>35</u>
Total Distribution Expenses	<u>171,003</u>
Accounting and Collecting Expenses	
Accounting and Collecting Labor	78,664
Administrative and General Expenses	
Administrative and General Salaries	19,281
Office Supplies and Expenses	18,059
Professional Services	36,697
Employee Pension and Benefits	6,050
Property Insurance	25,838
Communications	4,895
Dues and Subscriptions	3,184
Training and Safety	771
Miscellaneous General Expenses	<u>8,100</u>
Total Administrative and General Expenses	<u>122,875</u>
Total Operation and Maintenance Expenses	<u>573,539</u>
Depreciation	<u>575,343</u>
Total Operating Expenses	<u>1,148,882</u>

OPERATING INCOME	\$ <u>483,758</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, 2015

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	\$ 4,206,697	\$ 1,632,640
Rental Income	-	27,655
Connection Charges	6,200	38,538
Investment Income	<u>2,224</u>	<u>3,400</u>
Total Gross Revenues	4,215,121	1,702,233
Operation and Maintenance Expenses	<u>(2,914,811)</u>	<u>(573,539)</u>
Net Revenues	<u>\$ 1,300,310</u>	<u>\$ 1,128,694</u>
Minimum required earnings per resolution:		
Annual debt service	\$ 710,964	\$ 1,003,257
Coverage factor	<u>110 %</u>	<u>110 %</u>
Minimum Required Net Revenues	<u>\$ 782,060</u>	<u>\$ 1,103,583</u>
Annual Debt Coverage	166 %	102 %

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members of the Council
North Branch Municipal Water and Light Commission
North Branch, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of North Branch Municipal Water and Light Commission, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise North Branch Municipal Water and Light Commission, Minnesota's basic financial statements, and have issued our report thereon dated April 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Branch Municipal Water and Light Commission, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Branch Municipal Water and Light Commission, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Branch Municipal Water and Light Commission, Minnesota's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements 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 statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Items 2015-001 and 2015-002.

Compliance and Other Matters


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

North Branch Municipal Water and Light Commission, Minnesota's Response to Findings

North Branch Municipal Water and Light Commission, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. North Branch Municipal Water and Light Commission, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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


Dennis E. Oberloh, Ltd.

April 19, 2016

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015

INTERNAL CONTROL FINDINGS

Audit Finding 2015-001

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 2015-002

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.

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AUDITOR'S REPORT ON LEGAL COMPLIANCE


Honorable Mayor and Members of the Council
North Branch Municipal Water and Light Commission
North Branch, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the basic financial statements of business-type activities and each major fund of North Branch Municipal Water and Light Commission, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65 contains seven main 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 audit included all of the listed categories except that we did not test for compliance with the provisions for tax increment financing because the City does not maintain any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that North Branch Municipal Water and Light Commission, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the North Branch Municipal Water and Light Commission, Minnesota's noncompliance with the above reference provisions.

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


Dennis E. Oberloh, Ltd.

April 19, 2016