

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

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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, 2016, 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, 2016, 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 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. The pension reporting schedules, although not a part of the basic financial statements, are 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 March 21, 2017 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.

March 21, 2017

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	<u>Business-Type Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,439,343
Receivables:	
Accounts Receivable	872,625
Due from Primary Government	111,840
Inventory	230,307
Restricted Cash	5,379,899
Capital assets not being depreciated:	
Land	98,930
Other capital assets:	
Property and Equipment	35,516,098
Accumulated Depreciation	(12,582,525)
Unamortized Debt Discount	<u>103,457</u>
TOTAL ASSETS	<u>31,169,974</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to Net Pension Liability	<u>341,501</u>
LIABILITIES	
Accounts Payable	274,520
Accrued Expenses	19,477
Accrued Interest	237,027
Customer Deposits	111,228
Rate Stabilization	147,880
Due to the Primary Government	349,246
Noncurrent liabilities:	
Due within one year	3,694,000
Accrued Compensated Absences	58,114
Due in more than one year	13,303,000
Unamortized Debt Premium	49,997
Net Pension Liability	<u>820,070</u>
TOTAL LIABILITIES	<u>19,064,559</u>
DEFERRED INFLOWS OF RESOURCES	
Related to Net Pension Liability	<u>99,940</u>
NET POSITION	
Net Investment in Capital Assets	8,650,503
Restricted for:	
Restricted - Redemption and Replacement Funding	2,527,872
Unrestricted	<u>1,168,601</u>
TOTAL NET POSITION	<u>\$ 12,346,976</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, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net Sources (Uses) and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	
<u>Business-Type Activities</u>				<u>Business-Type Activities Totals</u>
Electric Utility	\$ 3,989,581	\$ 4,482,890	\$ 1,500	\$ 494,809
Water Utility	<u>1,644,757</u>	<u>1,811,943</u>	<u>54,689</u>	<u>221,875</u>
Total Business-Type Activities	<u>5,634,338</u>	<u>6,294,833</u>	<u>56,189</u>	<u>716,684</u>
<u>General Revenues:</u>				
Investment Income				8,073
Antenna Rental				29,412
Miscellaneous Income				2,070
Total General Revenues				<u>39,555</u>
Changes in Net Position				<u>756,239</u>
Net Position - January 1				<u>11,590,737</u>
Net Position - December 31				<u>\$ 12,346,976</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, 2016

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,161,883	\$ 277,460	\$ 1,439,343
Accounts Receivable	716,509	156,116	872,625
Due from Primary Government	47,734	64,106	111,840
Inventory	214,536	15,771	230,307
Total Current Assets	<u>2,140,662</u>	<u>513,453</u>	<u>2,654,115</u>
NONCURRENT ASSETS			
Restricted Assets			
Reserve Account	633,822	926,020	1,559,842
Redemption Account	3,129,825	432,540	3,562,365
Water Hookup Charges	-	257,692	257,692
Capital Assets			
Land	16,005	82,925	98,930
Property and Equipment	15,195,694	20,320,404	35,516,098
Accumulated Depreciation	(6,583,416)	(5,999,109)	(12,582,525)
Other Assets			
Unamortized Debt Discount	66,275	37,182	103,457
Total Noncurrent Assets	<u>12,458,205</u>	<u>16,057,654</u>	<u>28,515,859</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to Net Pension Liability	<u>204,264</u>	<u>137,237</u>	<u>341,501</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 14,803,131</u>	 <u>\$ 16,708,344</u>	 <u>\$ 31,511,475</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, 2016

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 256,470	\$ 18,050	\$ 274,520
Accrued Expenses	17,786	1,691	19,477
Customer Deposits	111,228	-	111,228
Rate Stabilization	147,880	-	147,880
Due to the Primary Government	346,869	2,377	349,246
Current Amount of Long-Term Debt Payable from Restricted Assets	479,000	600,000	1,079,000
Accrued Interest	70,520	166,507	237,027
Current Amount of Refunding Bond	<u>2,615,000</u>	<u>-</u>	<u>2,615,000</u>
Total Current Liabilities	<u>4,044,753</u>	<u>788,625</u>	<u>4,833,378</u>
<b>LONG-TERM LIABILITIES</b>			
Accrued Compensated Absences	33,165	24,949	58,114
Bonds Payable	5,188,000	8,115,000	13,303,000
Unamortized Debt Premium	-	49,997	49,997
Net Pension Liability	<u>496,307</u>	<u>323,763</u>	<u>820,070</u>
Total Long-Term Liabilities	<u>5,717,472</u>	<u>8,513,709</u>	<u>14,231,181</u>
<b>TOTAL LIABILITIES</b>	9,762,225	9,302,334	19,064,559
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to Net Pension Liability	<u>60,389</u>	<u>39,551</u>	<u>99,940</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	2,961,283	5,689,220	8,650,503
Restricted - Redemption and Replacement Funding	1,078,127	1,449,745	2,527,872
Unrestricted	<u>941,107</u>	<u>227,494</u>	<u>1,168,601</u>
Total Net Position	<u>4,980,517</u>	<u>7,366,459</u>	<u>12,346,976</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 14,803,131</u>	<u>\$ 16,708,344</u>	<u>\$31,511,475</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, 2016

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
OPERATING REVENUES			
Operating Revenues	\$ <u>4,482,890</u>	\$ <u>1,811,943</u>	\$ <u>6,294,833</u>
OPERATING EXPENSES			
Operation and Maintenance	3,188,050	643,568	3,831,618
Depreciation	<u>506,348</u>	<u>577,592</u>	<u>1,083,940</u>
Total Operating Expenses	<u>3,694,398</u>	<u>1,221,160</u>	<u>4,915,558</u>
OPERATING INCOME	<u>788,492</u>	<u>590,783</u>	<u>1,379,275</u>
NON OPERATING REVENUE AND EXPENSES			
Investment Income	4,657	3,413	8,070
Antenna Rental	-	29,412	29,412
Miscellaneous Income	2,070	-	2,070
Fiscal Agent Charges	(4,050)	(2,500)	(6,550)
Interest Expense	<u>(291,133)</u>	<u>(421,097)</u>	<u>(712,230)</u>
Total Non Operating Revenue and Expenses	<u>(288,456)</u>	<u>(390,772)</u>	<u>(679,228)</u>
NET INCOME BEFORE CONTRIBUTIONS	500,036	200,011	700,047
CAPITAL CONTRIBUTIONS			
Connection Charges	<u>1,500</u>	<u>54,692</u>	<u>56,192</u>
CHANGE IN NET POSITION	501,536	254,703	756,239
NET POSITION - January 1	<u>4,478,981</u>	<u>7,111,756</u>	<u>11,590,737</u>
NET POSITION - December 31	<u>\$ <u>4,980,517</u></u>	<u>\$ <u>7,366,459</u></u>	<u>\$ <u>12,346,976</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, 2016

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 4,380,225	\$ 1,788,412	\$ 6,168,637
Payments to Vendors	(2,528,133)	(284,499)	(2,812,632)
Payments to Employees	(496,722)	(330,198)	(826,920)
Other Receipts and Payments	<u>2,070</u>	<u>29,412</u>	<u>31,482</u>
Net Cash Provided By Operating Activities	<u>1,357,440</u>	<u>1,203,127</u>	<u>2,560,567</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	(13,926)	(67,791)	(81,717)
Proceeds from Issuance of Debt	2,662,000	-	2,662,000
Principal Paid on Capital Debt	(425,000)	(570,000)	(995,000)
Interest Paid on Capital Debt	(294,548)	(435,757)	(730,305)
Contributions received for Construction	<u>1,500</u>	<u>54,689</u>	<u>56,189</u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>1,930,026</u>	<u>(1,018,859)</u>	<u>911,167</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Received	<u>4,657</u>	<u>3,413</u>	<u>8,070</u>
Net Cash Provided By Investing Activities	<u>4,657</u>	<u>3,413</u>	<u>8,070</u>
NET INCREASE IN CASH	3,292,123	187,681	3,479,804
CASH AND CASH EQUIVALENTS - January 1	<u>1,633,407</u>	<u>1,706,031</u>	<u>3,339,438</u>
CASH AND CASH EQUIVALENTS - December 31	<u>\$ 4,925,530</u>	<u>\$ 1,893,712</u>	<u>\$ 6,819,242</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Cash and Investments per Statement of Net Position	\$ 1,161,883	\$ 277,460	\$ 1,439,343
Restricted Cash and Investments per Statement of Net Position	<u>3,763,647</u>	<u>1,616,252</u>	<u>5,379,899</u>
CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	<u>\$ 4,925,530</u>	<u>\$ 1,893,712</u>	<u>\$ 6,819,242</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, 2016

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Provided			
By Operating Activities			
Operating Income	\$ 788,492	\$ 590,783	\$ 1,379,275
Adjustments to Reconcile Operating Income to Net Cash			
Provided By Operating Activities			
Depreciation	506,348	577,592	1,083,940
Noncash Pension Expense	32,969	21,828	54,797
Changes in Assets and Liabilities			
Accounts Receivable	(92,385)	(18,749)	(111,134)
Due from the Primary Government	(15,659)	(4,782)	(20,441)
Inventory	3,688	(2,755)	933
Prepaid Expense	5,218	2,933	8,151
Accounts Payable	81,795	4,734	86,529
Accrued Expenses	1,520	(50)	1,470
Accrued Compensated Absences	5,073	2,181	7,254
Due to the Primary Government	32,932	-	32,932
Customer Deposits	5,379	-	5,379
Other Revenues and Expenses	2,070	29,412	31,482
Net Cash Provided By Operating Activities	<u>\$ 1,357,440</u>	<u>\$ 1,203,127</u>	<u>\$ 2,560,567</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 2016 and 2015 of \$22,204 and \$38,519, 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, 2016 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 position.

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 \$6,365,283 and the bank balance was \$6,385,597. Of the bank balance, \$750,000 was covered by federal depository insurance. Of the remaining balance, \$5,635,597 was collateralized with securities held by the pledging financial institution's trust department in the Commission's name.

B. Investments

As of December 31, 2016, 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	\$38,355	\$38,355	N/A	N/A
Wells Fargo Investment	\$415,454	\$415,454	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	\$ 6,365,283
Total Investments	453,809
Total Cash on Hand	<u>150</u>
	<u>\$ 6,819,242</u>
Statement of Net Position	
Cash and Cash Investments	\$ 1,439,343
Restricted Assets	<u>5,379,899</u>
	<u>\$ 6,819,242</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, 2016:

	Restricted Assets	Liabilities Payable from Restricted Assets	Net Restricted Assets
Bond Redemption Account	\$ 3,562,365	\$ 2,852,027	\$ 710,338
Bond Reserve Account	1,559,842	-	1,559,842
Water Hookup Charge Account	<u>257,692</u>	<u>-</u>	<u>257,692</u>
Total Restricted Assets	<u>\$ 5,379,899</u>	<u>\$ 2,852,027</u>	<u>\$ 2,527,872</u>

3. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 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>8,960,471</u>	<u>13,925</u>	<u>-</u>	<u>8,974,396</u>
Subtotal	<u>15,181,769</u>	<u>13,925</u>	<u>-</u>	<u>15,195,694</u>
Less: Accumulated Depreciation				
Buildings and Structures	83,377	3,603	-	86,980
Equipment and Vehicles	2,087,503	207,320	-	2,294,823
Distribution System	<u>3,906,188</u>	<u>295,425</u>	<u>-</u>	<u>4,201,613</u>
Subtotal	<u>6,077,068</u>	<u>506,348</u>	<u>-</u>	<u>6,583,416</u>
Net Other Capital Assets	<u>9,104,701</u>	<u>(492,423)</u>	<u>-</u>	<u>8,612,278</u>
Net Electric Plant	<u>\$ 9,120,706</u>	<u>\$ (492,423)</u>	<u>\$ -</u>	<u>\$ 8,628,283</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, 2016 for the Water Utility was as follows:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance 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	1,851,254	49,900	-	1,901,154
Equipment and Vehicles	679,475	17,891	-	697,366
Distribution System	<u>17,721,884</u>	<u>-</u>	<u>-</u>	<u>17,721,884</u>
Subtotal	<u>20,252,613</u>	<u>67,791</u>	<u>-</u>	<u>20,320,404</u>
Less: Accumulated Depreciation				
Buildings and Structures	570,500	38,023	-	608,523
Equipment and Vehicles	362,902	31,317	-	394,219
Distribution System	<u>4,488,115</u>	<u>508,252</u>	<u>-</u>	<u>4,996,367</u>
Subtotal	<u>5,421,517</u>	<u>577,592</u>	<u>-</u>	<u>5,999,109</u>
Net Other Capital Assets	<u>14,831,096</u>	<u>(509,801)</u>	<u>-</u>	<u>14,321,295</u>
Net Water Plant	<u>\$ 14,914,021</u>	<u>\$ (509,801)</u>	<u>\$ -</u>	<u>\$ 14,404,220</u>

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

Business-Type Activities:

Electric Utility	\$ 506,348
Water Utility	<u>577,592</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,083,940</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, 2016.

	<u>Balance January 1</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Balance December 31</u>	<u>Current Amount</u>
Electric Utility					
Revenue Bonds	\$ 6,045,000	\$2,662,000	\$ 425,000	\$ 8,282,000	\$ 3,094,000
Water Utility					
Revenue Bonds	<u>9,285,000</u>	<u>-</u>	<u>570,000</u>	<u>8,715,000</u>	<u>600,000</u>
Totals	<u>\$15,330,000</u>	<u>\$2,662,000</u>	<u>\$ 995,000</u>	<u>\$16,997,000</u>	<u>\$ 3,694,000</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.

During 2016, the Commission issued \$2,662,000 Electric System Revenue Refunding Bonds of 2016A. These bonds will be used to refund the Electric System Revenue Bonds of 2002 and the Electric System Revenue Bonds of 2008B. The proceeds from issuance were held as restricted cash in the amount of \$2,615,000 at December 31, 2016 for the payments due in February 2017.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

Bonds outstanding at December 31, 2016 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.	\$ 660,000
\$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.	1,955,000
\$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.	210,000
\$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.	2,795,000
\$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.	1,465,000
\$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.	4,820,000
\$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.	2,430,000
\$2,662,000 Electric System Revenue Refunding Bonds of 2016A, due in annual installments of \$169,000 to \$281,000 through November 1, 2028, plus interest at 2.45% due in semi-annual installments. This bond was used to refund the Electric System Revenue Bonds of 2002 and Electric System Revenue Bonds of 2008B.	<u>2,662,000</u>
Total Long-Term Debt	<u>\$16,997,000</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

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>
2017	\$ 3,694,000	\$ 663,132	\$ 4,357,132
2018	1,064,000	563,602	1,627,602
2019	1,020,000	521,949	1,541,949
2020	1,064,000	481,212	1,545,212
2021	1,108,000	438,014	1,546,014
2022-2026	5,277,000	1,510,124	6,787,124
2027-2031	2,575,000	574,038	3,149,038
2032-2036	<u>1,195,000</u>	<u>126,574</u>	<u>1,321,574</u>
Total	<u>\$ 16,997,000</u>	<u>\$ 4,878,645</u>	<u>\$ 21,875,645</u>

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

Business-Type Activities:

Electric	\$ 285,444
Water	<u>424,762</u>
Total Interest Expense - Business-Type Activities	<u>\$ 710,206</u>

5. NET POSITION

Net position reported on the statement of net position at December 31, 2016 include the following:

Business-Type Activities

Net Investment in Capital Assets

Land	\$ 98,930
Other capital assets, net of accumulated depreciation	22,933,573
Less: related long-term debt outstanding (excluding unspent debt refunding proceeds)	<u>(14,382,000)</u>
Total Net Investment in Capital Assets	<u>8,650,503</u>

Restricted

Debt Service	2,270,180
Water Hookup Charges	<u>257,692</u>
Total Restricted	<u>2,527,872</u>

Unrestricted

	<u>1,168,601</u>
Total Business-Type Activities Net Position	<u>\$ 12,346,976</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

6. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

The North Branch Municipal Water and Light Commission 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 (General Employees Plan (accounted for in the General Employees Fund))**

All full-time and certain part-time employees of the North Branch Municipal Water and Light Commission are covered by the General Employees Plan. General Employees Plan 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.

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 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given one percent 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. General Employees Plan Benefits**

General Employees Plan 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 ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten 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 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.



NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

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. General Employees Fund Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in 2016. The North Branch Municipal Water and Light Commission was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The North Branch Municipal Water and Light Commission's contributions to the General Employees Fund for the year ended December 31, 2016, were \$48,098. The North Branch Municipal Water and Light Commission contributions were equal to the required contributions as set by state statute.

D. Pension Costs

**1. General Employees Fund Pension Costs**

At December 31, 2016, the North Branch Municipal Water and Light Commission reported a liability of \$820,070 for its proportionate share of the General Employees Fund's net pension liability. The net pension liability was measured as of June 30, 2016, 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's proportion of the net pension liability was based on the North Branch Municipal Water and Light Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the North Branch Municipal Water and Light Commission's proportion share was 0.0101% which was an decrease of 0.0003% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the North Branch Municipal Water and Light Commission recognized pension expense of \$109,778 for its proportionate share of the General Employees Plan's pension expense.

At December 31, 2016, the North Branch Municipal Water and Light Commission reported its proportionate share of the General Employees Plan'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	\$ -	\$ 67,141
Changes in actuarial assumptions	160,570	-
Difference between projected and actual investment earnings	156,756	-
Changes in proportion	-	32,799
Contributions paid to PERA subsequent to the measurement date	24,175	-
Total	<u>\$ 341,501</u>	<u>\$ 99,940</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

D. Pension Costs (Cont.)

\$24,175 reported as deferred outflows of resources related to pensions resulting from North Branch Municipal Water and Light Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. 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>
2017	\$ 56,045
2018	\$ 56,045
2019	\$ 75,673
2020	\$ 29,623
2021	\$ -
Thereafter	\$ -

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for the Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

**General Employees Fund**

- The assumed post-retirement benefit increases rate was changed from 1 percent per year through 2035 and 2.5 percent per year thereafter to 1 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.5 percent for inflation

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

E. Actuarial Assumptions (Cont.)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumption, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. 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.

G. Pension Liability Sensitivity

The following presents the North Branch Municipal Water and Light Commission 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 proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
General Employees Fund:	\$ 1,164,742	\$ 820,070	\$ 536,154

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](http://www.mnpera.org).

7. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2016.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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.

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.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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.

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, 2016

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, 2016	0.0101 %	820,070	627,360	130.72 %	68.90 %
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, 2016

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, 2016	\$ 48,098	\$ 48,098	-	\$ 641,307	7.50 %
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, 2016

	\$3,110,000 Water Revenue Bonds of <u>2008A</u>	\$2,662,000 Electric Revenue Bonds of <u>2016A</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>	\$3,350,000 Electric Revenue Bonds of <u>2010A</u>	<u>Totals</u>
Bonds Payable	\$2,430,000	\$2,662,000	\$210,000	\$4,820,000	\$1,465,000	\$2,795,000	\$14,382,000
Future Interest Payable	<u>1,208,896</u>	<u>379,126</u>	<u>12,980</u>	<u>1,502,592</u>	<u>273,551</u>	<u>1,432,007</u>	<u>4,809,152</u>
Total	<u>\$3,638,896</u>	<u>\$3,041,126</u>	<u>\$222,980</u>	<u>\$6,322,592</u>	<u>\$1,738,551</u>	<u>\$4,227,007</u>	<u>\$19,191,152</u>
Payments to Maturity:							
2017	215,818	308,893	134,240	573,038	220,250	220,400	1,672,639
2018	211,968	312,996	88,740	572,738	218,750	222,410	1,627,602
2019	212,868	312,773	-	574,988	217,050	224,270	1,541,949
2020	213,562	315,403	-	576,238	219,600	220,410	1,545,213
2021	213,778	317,812	-	576,488	216,388	221,548	1,546,014
2022	213,776	314,002	-	575,738	217,838	222,512	1,543,866
2023	213,376	196,117	-	573,988	213,950	223,222	1,420,653
2024	212,750	190,952	-	572,376	214,725	223,347	1,414,150
2025	216,250	191,812	-	574,812	-	222,432	1,205,306
2026	214,250	191,548	-	576,062	-	221,289	1,203,149
2027	212,000	195,188	-	576,126	-	224,919	1,208,233
2028	214,500	193,630	-	-	-	223,094	631,224
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>\$3,638,896</u>	<u>\$3,041,126</u>	<u>\$222,980</u>	<u>\$6,322,592</u>	<u>\$1,738,551</u>	<u>\$4,227,008</u>	<u>\$19,191,153</u>

The table above assumes the payoff of the Electric Revenue Bonds of 2002 and the Electric Revenue Bonds of 2008B which was done February 2017 from restricted cash held by the Commission.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF DEBT MATURITIES  
DECEMBER 31, 2016

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

<u>Year</u>	<u>Interest Rate</u>	<u>February 1</u>	<u>August 1</u>	<u>August 1</u>	<u>Total</u>
		<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
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>\$ 604,448</u>	<u>\$ 2,430,000</u>	<u>\$ 604,448</u>	<u>\$ 3,638,896</u>

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

<u>Year</u>	<u>Interest Rate</u>	<u>February 1</u>	<u>August 1</u>	<u>August 1</u>	<u>Total</u>
		<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2017	4.55%	\$ 52,531	\$ 1,955,000	-	\$ 2,007,531
Total		<u>\$ 52,531</u>	<u>\$ 1,955,000</u>	<u>\$ -</u>	<u>\$ 2,007,531</u>

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

<u>Year</u>	<u>Interest Rate</u>	<u>February 1</u>	<u>August 1</u>	<u>August 1</u>	<u>Total</u>
		<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2017	4.40%	\$ 4,620	\$ 125,000	\$ 4,620	\$ 134,240
2018	4.40%	1,870	85,000	1,870	88,740
Total		<u>\$ 6,490</u>	<u>\$ 210,000</u>	<u>\$ 6,490</u>	<u>\$ 222,980</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF DEBT MATURITIES  
DECEMBER 31, 2016

\$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>
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>\$ 751,296</u>	<u>\$ 4,820,000</u>	<u>\$ 751,296</u>	<u>\$ 6,322,592</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>
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>\$ 152,638</u>	<u>\$ 1,465,000</u>	<u>\$ 120,913</u>	<u>\$ 1,738,551</u>

\$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>
2017	4.80%	\$ <u>16,962</u>	\$ <u>660,000</u>	<u>-</u>	\$ <u>676,962</u>
Total		<u>\$ 16,962</u>	<u>\$ 660,000</u>	<u>\$ -</u>	<u>\$ 676,962</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF DEBT MATURITIES  
DECEMBER 31, 2016

\$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>
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>\$ 716,008</u>	<u>\$ 2,795,000</u>	<u>\$ 716,000</u>	<u>\$ 4,227,008</u>

\$2,662,000 Electric System Revenue Refunding Bonds, Series 2016A

<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>
2017	2.45%	-	\$ 254,000	\$ 54,893	\$ 308,893
2018	2.45%	\$ 29,498	254,000	29,498	312,996
2019	2.45%	26,387	260,000	26,386	312,773
2020	2.45%	23,202	269,000	23,201	315,403
2021	2.45%	19,906	278,000	19,906	317,812
2022	2.45%	16,501	281,000	16,501	314,002
2023	2.45%	13,059	170,000	13,058	196,117
2024	2.45%	10,976	169,000	10,976	190,952
2025	2.45%	8,906	174,000	8,906	191,812
2026	2.45%	6,774	178,000	6,774	191,548
2027	2.45%	4,594	186,000	4,594	195,188
2028	2.45%	2,315	189,000	2,315	193,630
Total		<u>\$ 162,118</u>	<u>\$ 2,662,000</u>	<u>\$ 217,008</u>	<u>\$ 3,041,126</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF PURCHASED POWER AND SYSTEM PEAK LOAD  
FOR THE YEAR ENDED DECEMBER 31, 2016

<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	1/19/2016	6:00 PM	4,340	2,501,500	\$ 179,470
February	2/9/2016	7:00 PM	4,120	2,266,540	182,152
March	3/3/2016	11:00 AM	3,820	2,172,260	175,900
April	4/18/2016	1:00 PM	3,760	2,056,940	167,630
May	5/24/2016	5:00 PM	5,240	2,239,920	183,530
June	6/10/2016	2:00 PM	5,960	2,597,840	213,176
July	7/21/2016	4:00 PM	6,960	2,945,300	243,201
August	8/3/2016	4:00 PM	7,100	2,981,020	246,930
September	9/6/2016	2:00 PM	5,280	2,281,820	186,216
October	10/4/2016	2:00 PM	4,120	2,136,920	181,771
November	11/29/2016	6:00 PM	3,860	2,113,680	177,449
December	12/14/2016	6:00 PM	4,440	<u>2,485,660</u>	<u>194,550</u>
		Totals		<u>28,779,400</u>	\$ <u>2,331,975</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<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	6,212,646	13,925	-	6,226,571
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>15,197,774</u>	<u>13,925</u>	<u>-</u>	<u>15,211,699</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	433,229	17,891	-	451,120
Wells	5,759,542	-	-	5,759,542
Equipment	175,208	-	-	175,208
Computer	3,486	-	-	3,486
Water Tower	1,822,606	49,900	-	1,872,506
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>20,335,538</u>	<u>67,791</u>	<u>-</u>	<u>20,403,329</u>
Total Utilities	<u>\$ 26,258,972</u>	<u>\$ 67,791</u>	<u>\$ -</u>	<u>\$ 26,326,763</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2016

<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%	83,377	3,603	-	86,980	93,188
4%	1,969,810	207,320	-	2,177,130	3,746,304
3%	3,006,898	199,251	-	3,206,149	3,020,422
4%	899,289	96,174	-	995,463	1,752,364
10%	51,601	-	-	51,601	-
20%	32,347	-	-	32,347	-
10%	33,746	-	-	33,746	-
	<u>6,077,068</u>	<u>506,348</u>	<u>-</u>	<u>6,583,416</u>	<u>8,628,283</u>
0%	-	-	-	-	82,925
2%	21,972	573	-	22,545	6,103
5%	21,527	-	-	21,527	-
5%	940	-	-	940	-
2%	114,241	2,561	-	116,802	11,266
5%	152,968	22,556	-	175,524	275,596
2%	838,073	115,191	-	953,264	4,806,278
5%	138,895	8,760	-	147,655	27,553
20%	3,486	-	-	3,486	-
2%	548,529	37,450	-	585,979	1,286,527
10%	46,025	-	-	46,025	-
3%	<u>3,534,862</u>	<u>390,500</u>	<u>-</u>	<u>3,925,362</u>	<u>7,907,972</u>
	<u>5,421,518</u>	<u>577,591</u>	<u>-</u>	<u>5,999,109</u>	<u>14,404,220</u>
	<u>\$ 7,391,328</u>	<u>\$ 784,911</u>	<u>\$ -</u>	<u>\$ 8,176,239</u>	<u>\$ 18,150,524</u>



NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES

Sales of Electricity	
Residential	\$ 1,855,569
Commercial	1,040,544
Large Power	1,116,263
Security Lighting	<u>21,239</u>
Total Sales of Electricity	<u>4,033,615</u>
Other Operating Revenues	
Penalties	89,275
Quick Start	<u>360,000</u>
Total Other Operating Revenues	<u>449,275</u>
Total Operating Revenues	<u>4,482,890</u>

OPERATING EXPENSES

Production Expenses	
Operation Supervision and Labor	105,644
Natural Gas	1,186
Operation Supplies and Expenses	285
Maintenance of Equipment	12,771
Maintenance of Building	467
Fuel Oil	<u>50,597</u>
Total Production Expenses	<u>170,950</u>
Other Power Supply Expenses	
Purchased Power	<u>2,331,974</u>
Distribution Expenses	
Operation Labor	307,557
Warehouse Heat	2,543
Light Plant Heating	2,730
Building Maintenance	464
Operation Supplies and Expenses	27,887
Truck Expenses	6,660
Tools	<u>1,060</u>
Total Distribution Expenses	<u>348,901</u>
Territory Acquisition Expenses	
Territory Acquisition Expense	<u>1,926</u>
Demand Side Management Expense	
Demand Side Management	<u>9,148</u>
Accounting and Collecting Expenses	
Accounting and Collecting Labor	<u>100,861</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING EXPENSES (Cont.)

Administrative and General Expenses	
Administrative and General Salaries	20,702
Office Supplies and Expenses	19,945
Professional Services	103,055
Employee Pension and Benefits	9,090
Property Insurance	17,946
Communications	3,871
Dues and Subscriptions	9,467
Advertising and Promotions	255
Training and Safety	21,791
Clothing Allowance	2,395
Street Lighting	17,795
Miscellaneous General Expenses	<u>(2,022)</u>
Total Administrative and General Expenses	<u>224,290</u>
Total Operation and Maintenance Expenses	<u>3,188,050</u>
Depreciation	<u>506,348</u>
Total Operating Expenses	<u>3,694,398</u>

OPERATING INCOME	<u>\$ 788,492</u>
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NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
WATER UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES

Sales of Water	
Sale of Water	\$ <u>1,727,293</u>
Other Operating Revenues	
Penalties	26,394
Other Water Revenue	<u>58,256</u>
Total Other Operating Revenues	<u>84,650</u>
Total Operating Revenues	<u>1,811,943</u>

OPERATING EXPENSES

Production Expenses	
Operation Supervision and Labor	91,914
Natural Gas	5,453
Operation Supplies and Expenses	-
Maintenance of Equipment	3,867
Maintenance of Building	1,207
Water Supply Testing	<u>96,240</u>
Total Production Expenses	<u>198,681</u>
Distribution Expenses	
Operation Labor	138,973
Warehouse Heat	1,988
Operation Supplies and Expenses	83,185
Truck Expenses	2,621
Tools	<u>4,537</u>
Total Distribution Expenses	<u>231,304</u>
Accounting and Collecting Expenses	
Accounting and Collecting Labor	102,665
Administrative and General Expenses	
Administrative and General Salaries	20,655
Office Supplies and Expenses	19,666
Professional Services	26,339
Employee Pension and Benefits	8,759
Property Insurance	18,253
Communications	5,106
Dues and Subscriptions	3,188
Training and Safety	2,746
Miscellaneous General Expenses	<u>6,206</u>
Total Administrative and General Expenses	<u>110,918</u>
Total Operation and Maintenance Expenses	<u>643,568</u>
Depreciation	<u>577,592</u>
Total Operating Expenses	<u>1,221,160</u>

OPERATING INCOME	\$ <u><u>590,783</u></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, 2016

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	\$ 4,462,757	\$ 1,802,092
Rental Income	-	29,412
Connection Charges	1,500	54,689
Investment Income	<u>4,657</u>	<u>3,413</u>
Total Gross Revenues	4,468,914	1,889,606
Operation and Maintenance Expenses	<u>(3,165,137)</u>	<u>(643,568)</u>
Net Revenues	\$ <u><u>1,303,777</u></u>	\$ <u><u>1,246,038</u></u>
Minimum required earnings per resolution:		
Annual debt service	\$ 663,533	\$ 1,009,106
Coverage factor	<u>110 %</u>	<u>110 %</u>
Minimum Required Net Revenues	\$ <u><u>729,886</u></u>	\$ <u><u>1,110,017</u></u>
Annual Debt Coverage	179 %	112 %

**DENNIS E. OBERLOH, LTD.**

**CERTIFIED PUBLIC ACCOUNTANT  
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REDWOOD FALLS, MN 56283**

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**Fax: (507) 644-6401**

**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, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise North Branch Municipal Water and Light Commission's basic financial statements, and have issued our report thereon dated March 21, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Branch Municipal Water and Light Commission'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Branch Municipal Water and Light Commission'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 2016-001 and 2016-002.

### **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 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's Response to Findings**

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. North Branch Municipal Water and Light Commission'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.

March 21, 2017

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2016

INTERNAL CONTROL FINDINGS

Audit Finding 2016-001

*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 2016-002

*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, as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2017.

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 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'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.

March 21, 2017