

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**

ANNUAL FINANCIAL REPORT

December 31, 2005

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WATER AND LIGHT COMMISSION
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I. INTRODUCTORY SECTION

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**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION
ORGANIZATION**
December 31, 2005

Commission Members:

Darrel Fisk

Keith Hals

Kathy Blomquist

Superintendent:

Vacant

Office Manager:

Janet Ekstrom

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II. FINANCIAL SECTION

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Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
North Branch Municipal Water and Light Commission
North Branch, Minnesota

We have audited the accompanying financial statements of the business-type activities and each major fund of the North Branch Municipal Water and Light Commission, as of and for the year ended December 31, 2005, which collectively comprise the North Branch Municipal Water and Light Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Branch Municipal Water and Light Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North Branch Municipal Water and Light Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the North Branch Municipal Water and Light Commission as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The North Branch Municipal Water and Light Commission has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

4810 White Bear Parkway	White Bear Lake, Minnesota	55110	651 426 7000	651 426 5004 Fax	www.hlbtr.com
1303 South Frontage Road	Suite 13 Hastings, Minnesota	55033	651 480 4990	651 426 5004 Fax	

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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 introductory section and supplementary financial information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary financial information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

HLB Tautges Redpath Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

February 23, 2006

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BASIC FINANCIAL STATEMENTS

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
STATEMENT OF NET ASSETS
December 31, 2005

Statement 1

	Business-Type Activities	
	2005	2004
Assets:		
Cash and cash equivalents	\$2,682,409	\$823,249
Customer accounts receivable	396,939	401,245
Inventories	320,359	319,461
Restricted cash and cash equivalents	2,370,586	4,469,412
Restricted investments	172,450	73,891
Unamortized bond discount	21,600	22,800
Deferred charges	40,500	42,750
Capital assets - net:		
Nondepreciable	187,133	355,000
Depreciable	7,382,463	6,105,337
Total assets	<u>13,574,439</u>	<u>12,613,145</u>
Liabilities:		
Accounts payable	220,686	167,574
Contracts payable	19,437	28,930
Accrued interest payable	52,497	53,923
Customer meter deposits	46,863	72,209
Deferred rate stabilization	147,880	147,880
Compensated absences payable:		
Due within one year	19,205	1,787
Due in more than one year	23,596	56,229
Bonds payable:		
Due within one year	245,000	240,000
Due in more than one year	5,400,000	5,645,000
Total liabilities	<u>6,175,164</u>	<u>6,413,532</u>
Net assets:		
Invested in capital assets, net of related debt	2,370,001	1,864,633
Restricted for:		
Capital projects	2,045,263	3,886,651
Debt service	497,773	656,652
Unrestricted	2,486,238	(208,323)
Total net assets	<u>\$7,399,275</u>	<u>\$6,199,613</u>

The accompanying notes are an integral part of these financial statements.

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2005

Statement 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets Business-Type Activities</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>2005</u>	<u>2004</u>
Business-type activities:						
Electric fund	\$2,854,664	\$2,815,925	\$131,917	\$ -	\$93,178	\$156,396
Water fund	726,500	1,164,169	-	554,145	991,814	590,003
Total business-type activities	<u>\$3,581,164</u>	<u>\$3,980,094</u>	<u>\$131,917</u>	<u>\$554,145</u>	<u>1,084,992</u>	<u>746,399</u>
General revenues:						
Unrestricted investment earnings					108,670	91,909
Gain on sale of capital assets					6,000	-
Total general revenues					<u>114,670</u>	<u>91,909</u>
Change in net assets					1,199,662	838,308
Net assets - beginning					<u>6,199,613</u>	<u>5,361,305</u>
Net assets - ending					<u>\$7,399,275</u>	<u>\$6,199,613</u>

The accompanying notes are an integral part of these financial statements.

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2005

Statement 3

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Totals	
			2005	2004
Assets:				
Current assets:				
Cash and cash equivalents	\$1,189,435	\$1,492,974	\$2,682,409	\$823,249
Customer accounts receivable	244,054	152,885	396,939	401,245
Inventories - at cost	291,429	28,930	320,359	319,461
Total current assets	<u>1,724,918</u>	<u>1,674,789</u>	<u>3,399,707</u>	<u>1,543,955</u>
Noncurrent assets:				
Restricted cash and cash equivalents	201,038	2,169,548	2,370,586	4,469,412
Restricted investments	73,085	99,365	172,450	73,891
Unamortized bond discount	-	21,600	21,600	22,800
Deferred charges	-	40,500	40,500	42,750
Capital assets:				
Land	16,005	82,925	98,930	98,930
Buildings and structures	180,168	1,801,354	1,981,522	1,991,522
Distribution and collection systems	4,196,603	2,299,136	6,495,739	4,943,967
Vehicles and equipment	1,878,553	245,727	2,124,280	2,117,860
Construction in progress	-	88,203	88,203	256,070
Total capital assets	<u>6,271,329</u>	<u>4,517,345</u>	<u>10,788,674</u>	<u>9,408,349</u>
Less: Allowance for depreciation	<u>(2,545,402)</u>	<u>(673,676)</u>	<u>(3,219,078)</u>	<u>(2,948,012)</u>
Net capital assets	<u>3,725,927</u>	<u>3,843,669</u>	<u>7,569,596</u>	<u>6,460,337</u>
Total noncurrent assets	<u>4,000,050</u>	<u>6,174,682</u>	<u>10,174,732</u>	<u>11,069,190</u>
Total assets	<u>5,724,968</u>	<u>7,849,471</u>	<u>13,574,439</u>	<u>12,613,145</u>
Liabilities:				
Current liabilities:				
Accounts payable	207,280	13,406	220,686	167,574
Contracts payable	-	19,437	19,437	28,930
Customer meter deposits	46,863	-	46,863	72,209
Accrued interest payable	16,808	35,689	52,497	53,923
Deferred rate stabilization	147,880	-	147,880	147,880
Compensated absences - current portion	14,404	4,801	19,205	1,787
Bonds payable - current portion	130,000	115,000	245,000	240,000
Total current liabilities	<u>563,235</u>	<u>188,333</u>	<u>751,568</u>	<u>712,303</u>
Noncurrent liabilities:				
Compensated absences - noncurrent portion	17,697	5,899	23,596	56,229
Bonds payable - noncurrent portion	2,625,000	2,775,000	5,400,000	5,645,000
Total noncurrent liabilities	<u>2,642,697</u>	<u>2,780,899</u>	<u>5,423,596</u>	<u>5,701,229</u>
Total liabilities	<u>3,205,932</u>	<u>2,969,232</u>	<u>6,175,164</u>	<u>6,413,532</u>
Net assets:				
Invested in capital assets, net of related debt	970,927	1,399,074	2,370,001	1,864,633
Restricted	274,123	2,268,913	2,543,036	4,543,303
Unrestricted	1,273,986	1,212,252	2,486,238	(208,323)
Total net assets	<u>\$2,519,036</u>	<u>\$4,880,239</u>	<u>\$7,399,275</u>	<u>\$6,199,613</u>

The accompanying notes are an integral part of these financial statements.

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**

Statement 4

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended December 31, 2005

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Totals	
			2005	2004
Operating revenue:				
Sales to customers	\$2,458,577	\$508,631	\$2,967,208	\$2,732,101
Sales to City	17,795	-	17,795	17,795
Trunk fees and connection charges	15,700	634,127	649,827	809,314
Generation and Quick Start income	295,447	-	295,447	277,986
Total operating revenue	<u>2,787,519</u>	<u>1,142,758</u>	<u>3,930,277</u>	<u>3,837,196</u>
Operating expenses:				
Production	163,082	53,324	216,406	119,259
Purchased power	1,603,156	-	1,603,156	1,471,218
Distribution system	213,804	50,983	264,787	268,801
DSM program	12,913	-	12,913	4,116
Territorial acquisition	35,913	-	35,913	32,546
Accounting and collecting	58,200	19,400	77,600	61,555
General and administrative	284,070	49,782	333,852	327,726
Total operating expenses	<u>2,371,138</u>	<u>173,489</u>	<u>2,544,627</u>	<u>2,285,221</u>
Operating income before depreciation	416,381	969,269	1,385,650	1,551,975
Depreciation	<u>(215,689)</u>	<u>(82,316)</u>	<u>(298,005)</u>	<u>(281,206)</u>
Operating income	<u>200,692</u>	<u>886,953</u>	<u>1,087,645</u>	<u>1,270,769</u>
Nonoperating revenues (expenses):				
Investment income	26,480	82,190	108,670	91,909
Interest on bonds	(137,415)	(108,632)	(246,047)	(232,905)
Antenna rental	-	20,942	20,942	20,542
Fiscal agent fees and bond issuance costs	(1,500)	(3,000)	(4,500)	(5,989)
Gain on sale of capital assets	6,000	-	6,000	-
Bond and assessment payments to City	-	(359,063)	(359,063)	(311,204)
Insurance recoveries	131,917	-	131,917	38,974
Building fire repairs	(128,922)	-	(128,922)	(18,924)
Miscellaneous	28,406	469	28,875	(14,864)
Total nonoperating revenues (expenses)	<u>(75,034)</u>	<u>(367,094)</u>	<u>(442,128)</u>	<u>(432,461)</u>
Income before contributions	125,658	519,859	645,517	838,308
Capital contributions	<u>-</u>	<u>554,145</u>	<u>554,145</u>	<u>-</u>
Change in net assets	125,658	1,074,004	1,199,662	838,308
Net assets - January 1	<u>2,393,378</u>	<u>3,806,235</u>	<u>6,199,613</u>	<u>5,361,305</u>
Net assets - December 31	<u>\$2,519,036</u>	<u>\$4,880,239</u>	<u>\$7,399,275</u>	<u>\$6,199,613</u>

The accompanying notes are an integral part of these financial statements.

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2005

Statement 5

	Business-Type Activities - Enterprise Funds			
	Electric	Water	Totals	
	Fund	Fund	2005	2004
Cash flows from operating activities:				
Receipts from customers and users	\$2,743,535	\$1,191,048	\$3,934,583	\$3,619,948
Payment to suppliers	(2,024,264)	(129,636)	(2,153,900)	(2,074,408)
Payment to employees	(332,628)	(55,939)	(388,567)	(351,491)
Miscellaneous revenue (expense)	31,401	21,411	52,812	25,728
Net cash flows from operating activities	<u>418,044</u>	<u>1,026,884</u>	<u>1,444,928</u>	<u>1,219,777</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(76,431)	(776,688)	(853,119)	(946,873)
Proceeds from sale of capital assets	6,000	-	6,000	-
Bond proceeds	-	-	-	2,934,450
Fiscal agent fees	(1,500)	(750)	(2,250)	(5,989)
Interest paid on debt	(138,108)	(108,165)	(246,273)	(197,087)
Principal paid on debt	(130,000)	(110,000)	(240,000)	(125,000)
Bond and assessment payments to City	-	(359,063)	(359,063)	(311,204)
Net cash flows from capital and related financing activities	<u>(340,039)</u>	<u>(1,354,666)</u>	<u>(1,694,705)</u>	<u>1,348,297</u>
Cash flows from investing activities:				
Investment income	27,286	82,825	110,111	90,787
Purchase of investments	-	(100,000)	(100,000)	-
Proceeds from sales and maturities of investments	-	-	-	50,000
Net cash flows from investing activities	<u>27,286</u>	<u>(17,175)</u>	<u>10,111</u>	<u>140,787</u>
Net increase (decrease) in cash and cash equivalents	105,291	(344,957)	(239,666)	2,708,861
Cash and cash equivalents - January 1	<u>1,285,182</u>	<u>4,007,479</u>	<u>5,292,661</u>	<u>2,583,800</u>
Cash and cash equivalents - December 31	<u><u>\$1,390,473</u></u>	<u><u>\$3,662,522</u></u>	<u><u>\$5,052,995</u></u>	<u><u>\$5,292,661</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	<u>\$200,692</u>	<u>\$886,953</u>	<u>\$1,087,645</u>	<u>\$1,270,769</u>
Adjustments to reconcile operating income to net cash flows from operating activities:				
Miscellaneous revenue (expense)	31,401	21,411	52,812	25,728
Depreciation	215,689	82,316	298,005	281,206
Changes in assets and liabilities:				
Decrease (increase) in receivables	(43,984)	48,290	4,306	(193,690)
Decrease (increase) in inventory	9,889	(10,787)	(898)	(34,096)
Increase (decrease) in payables	15,768	2,505	18,273	(135,208)
Increase (decrease) in accrued compensated absences	(11,411)	(3,804)	(15,215)	5,068
Total adjustments	<u>217,352</u>	<u>139,931</u>	<u>357,283</u>	<u>(50,992)</u>
Net cash provided by operating activities	<u><u>\$418,044</u></u>	<u><u>\$1,026,884</u></u>	<u><u>\$1,444,928</u></u>	<u><u>\$1,219,777</u></u>

The accompanying notes are an integral part of these financial statements.

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The North Branch Municipal Water and Light Commission (the Commission) was established in 1941 by a resolution of the City of North Branch. The Commission is a component unit of the City of North Branch. The governing body of the Commission is a three person Board of Commissioners. The Commissioners are appointed by the City of North Branch.

The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

A. FINANCIAL REPORTING ENTITY

As required by accounting principles generally accepted in the United States of America, 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 is considered a discretely presented component unit of the City of North Branch. 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. Accordingly, the Commission's financial statements are included in the City's financial statements as a discretely presented component unit in accordance with GASB Statement 14.

There are no component units of the Commission.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Commission. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or business-type activity. *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 business-type activity; and, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Investment income and other items not included among program revenues are reported instead as *general revenues*.

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

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

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Commission reports the following major proprietary funds:

The *Electric Fund* accounts for the billing and collection for electric service, and for the maintenance of the distribution and collection systems within the fund.

The *Water Fund* accounts for the billing and collection for water service, and for the maintenance of the distribution and collection systems within the fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Commission has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds. 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, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric and water funds are charges for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

D. CASH AND INVESTMENTS

Cash and investment balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to individual funds on the basis of the fund's equity in the cash and investment pool. Investments are stated at fair value based on quoted market prices. Investment income is accrued at the balance sheet date.

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

E. INVENTORIES

Inventories in proprietary funds are valued at cost, which approximates market, using the first in/first out (FIFO) method.

F. CAPITAL ASSETS

Capital assets, which include buildings, equipment, and distribution and collection systems, are reported in the business-type activities column in the government-wide financial statements. 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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 the year ended December 31, 2005, no interest was capitalized in connection with construction in progress.

Capital assets of the Commission are depreciated using the straight-line method over the following estimated useful lives:

Buildings and structures	50 years
Equipment	5 – 29 years
Distribution and collection systems	20 – 50 years

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

G. COMPENSATED ABSENCES

It is the Commission's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave and other employee benefit amounts of proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is vested as severance pay.

H. LONG-TERM OBLIGATIONS

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

I. INTERFUND TRANSACTIONS

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Interfund loans are reported as an interfund loan receivable or payable which offsets the movement of cash between funds. All other interfund transactions are reported as transfers.

J. USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

K. RECEIVABLES

All significant receivable balances are expected to be collected within one year of December 31, 2005. Customer accounts receivable in the Electric Fund are shown net of an allowance for doubtful accounts of \$106,400.

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the Commission maintains deposits at those depository banks authorized by the Board of Commissioners, all of which are members of the Federal Reserve System. Minnesota Statutes require that all Commission deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes, treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- d) Unrated general obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any federal agency.

At December 31, 2005 the carrying amount of the Commission's deposits was \$5,052,845. Of these deposits, \$69,188 were uncollateralized.

B. INVESTMENTS

Minnesota Statutes authorize the Commission to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities, or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
 - (1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service.
 - (2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and

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- (3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptance of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) 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; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7, 469.178, subdivision 5 or 475.61, subdivision 6.

Investment balances at December 31, 2005 are as follows:

	Fair Value	Maturity
	<u> </u>	<u> </u>
Federal Home Loan Mortgage Note	\$99,365	2/25/2008
Federal Home Loan Mortgage Note	49,003	5/15/2013
Tennessee Valley Authority Electronotes	24,082	10/15/2013
Total investments	<u>172,450</u>	
Deposits	5,052,845	
Petty cash	150	
Total cash and investments	<u><u>\$5,225,445</u></u>	

These amounts are presented on the statement of net assets as follows:

Cash and investments	\$2,682,409
Restricted cash - bond sinking fund	383,305
Restricted cash - bond reserve fund	497,773
Restricted savings - water hookup charges	1,661,958
	<u><u>\$5,225,445</u></u>

C. INVESTMENT RISKS

The Commission's investment policy is to follow Minnesota Statutes as described above which reduces the Commission's exposure to credit, custodial credit, and interest rate risks. Specific risk information for the Commission is as follows:

Credit Risk – The Commission's investments in the Federal Home Loan Mortgage Notes and the Tennessee Valley Authority Electronotes were rated Aaa by Moody's Investor Service and AAA by Standard & Poor's.

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Concentration of Credit Risk – The Commission places no limit on the amount the Commission may invest in any one issuer. More than 5 percent of the Commission’s investments are with the Federal Home Mortgage Corporation and the Tennessee Valley Authority. These investments are 86% and 14%, respectively, of the Commission’s total investments.

Note 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

Primary Government	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$98,930	\$ -	\$ -	\$98,930
Construction in progress	256,070	662,574	830,441	88,203
Total capital assets, not being depreciated	<u>355,000</u>	<u>662,574</u>	<u>830,441</u>	<u>187,133</u>
Capital assets, being depreciated:				
Buildings and structures	1,991,522	-	10,000	1,981,522
Vehicles and equipment	2,117,860	62,401	55,981	2,124,280
Distribution and collection systems	4,943,967	1,558,543	6,771	6,495,739
Total capital assets, being depreciated	<u>9,053,349</u>	<u>1,620,944</u>	<u>72,752</u>	<u>10,601,541</u>
Less accumulated depreciation for:				
Buildings and structures	226,950	39,630	10,000	256,580
Vehicles and equipment	899,627	88,157	16,939	970,845
Distribution and collection systems	1,821,435	170,218	-	1,991,653
Total accumulated depreciation	<u>2,948,012</u>	<u>298,005</u>	<u>26,939</u>	<u>3,219,078</u>
Total capital assets being depreciated - net	<u>6,105,337</u>	<u>1,322,939</u>	<u>45,813</u>	<u>7,382,463</u>
Business-type activities capital assets - net	<u>\$6,460,337</u>	<u>\$1,985,513</u>	<u>\$876,254</u>	<u>\$7,569,596</u>

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

Business-type activities:	
Electric	\$215,689
Water	<u>82,316</u>
	<u>\$298,005</u>

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December 31, 2005

Note 4 COMMISSION LONG-TERM INDEBTEDNESS

Commission indebtedness at December 31, 2005 is composed of the following:

	Interest Rate	Date	Final Maturity Date	Original Issue	Payable 12/31/2005
Revenue bonds:					
\$1,675,000 Electric System Revenue Bonds of 1998	4.0% - 5.4%	5/1/1998	5/1/2018	\$1,675,000	\$1,260,000
\$1,675,000 Electric System Revenue Bonds of 2002	1.9% - 5.25%	12/1/2002	12/1/2022	1,675,000	1,495,000
\$3,000,000 Water System Revenue Bonds of 2004	2.0% - 4.5%	3/1/2004	3/1/2024	3,000,000	2,890,000
Total bonded indebtedness				<u>\$6,350,000</u>	<u>5,645,000</u>
Compensated absences payable					<u>42,801</u>
Total Commission indebtedness					<u>\$5,687,801</u>

The following is a schedule of changes in Commission indebtedness for the year ended December 31, 2005:

	Balance 01/01/05	Additions	Deletions	Balance 12/31/05	Due Within One Year
Business-type activities					
Bonded debt:					
\$1,675,000 Electric System Revenue Bonds of 1998	\$1,330,000	\$ -	\$70,000	\$1,260,000	\$70,000
\$1,675,000 Electric System Revenue Bonds of 2002	1,555,000	-	60,000	1,495,000	60,000
\$3,000,000 Water System Revenue Bonds of 2004	3,000,000	-	110,000	2,890,000	115,000
Compensated absences	58,016	30,250	45,465	42,801	19,205
Totals	<u>\$5,943,016</u>	<u>\$30,250</u>	<u>\$285,465</u>	<u>\$5,687,801</u>	<u>\$264,205</u>

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December 31, 2005

The annual requirement to amortize all debt outstanding at December 31, 2005 is as follows:

Year Ending December 31,	Business-type activities	
	Revenue Bonds	
	Principal	Interest
2006	\$245,000	\$239,038
2007	255,000	231,272
2008	265,000	222,337
2009	270,000	212,943
2010	280,000	202,751
2011	295,000	191,756
2012	305,000	179,348
2013	315,000	166,045
2014	330,000	152,179
2015	345,000	137,330
2016	360,000	121,620
2017	380,000	104,569
2018	395,000	86,622
2019	275,000	71,462
2020	295,000	58,500
2021	305,000	44,250
2022	320,000	29,400
2023	200,000	13,950
2024	210,000	4,725
Totals	<u>\$5,645,000</u>	<u>\$2,470,097</u>

It is not practicable to determine the specific year for payment of long-term accrued compensated absences.

Interest on long-term bonds was charged as a direct function expense as follows:

Electric	\$137,415
Water	108,632
Total	<u>\$246,047</u>

**NORTH BRANCH MUNICIPAL
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December 31, 2005

Note 5 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

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

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

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

B. FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.10%, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan will increase in 2006 to 5.5%. PEPFF members were required to contribute 6.20% of their annual covered salary in 2005. That rate will increase to 7.0% in 2006. The Commission is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members, and 9.30% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.0% and 10.5% respectively, effective January 1, 2006. The Commission's contributions for the years ending December 31, 2005, 2004 and 2003, were \$20,186, \$19,526 and \$18,522, respectively. The Commission's contributions were equal to the contractually required contributions for each year as set by state statutes.

**NORTH BRANCH MUNICIPAL
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NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 6 FUND EQUITY

The Commission has restricted net assets at December 31, 2005 as follows:

	<u>Restricted Net Assets</u>	
Electric fund	\$274,123	Restricted for debt service
Water fund	383,305	Restricted for future improvements
Water fund	1,661,958	Restricted for system improvements
Water fund	<u>223,650</u>	Restricted for debt service
Total	<u><u>\$2,543,036</u></u>	

Note 7 RESTRICTED ASSETS

The Commission has restricted assets at December 31, 2005 as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Electric fund:			
Bond reserve fund	<u>\$201,038</u>	<u>\$73,085</u>	<u>\$274,123</u>
Water fund:			
Bond reserve fund	223,650	-	223,650
Bond sinking fund	383,305	-	383,305
Water hookup charges	<u>1,562,593</u>	<u>99,365</u>	<u>1,661,958</u>
Total water fund	<u>2,169,548</u>	<u>99,365</u>	<u>2,268,913</u>
Total restricted assets	<u><u>\$2,370,586</u></u>	<u><u>\$172,450</u></u>	<u><u>\$2,543,036</u></u>

Note 8 ELECTRIC COMMITMENTS

The Commission purchases power from the Southern Minnesota Municipal Power Agency (SMMPA) under a power sales contract which extends to April, 2030. Under the terms of the contract, the Commission is obligated to buy all the electrical power and energy needed to operate the electric utilities through the term of the contract. In addition, on January 1, 1995, the Commission entered a Capacity Purchase Agreement with SMMPA, whereby SMMPA is entitled to the exclusive use of the net electric generating capability of the Diesel Generating Facilities and the electric energy associated therewith. The agreement is cancelable by either

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December 31, 2005

party upon a five-year notice. Under terms of the agreement, SMMPA is responsible for all costs associated with the operation, maintenance, repairs, and other liabilities of operating the Diesel Generating Facilities.

Note 9 COMMITMENTS AND CONTINGENCIES

LITIGATION

At December 31, 2005 the Commission was not aware of any existing or pending lawsuits, claims, or other actions in which the Commission is a defendant, the outcome of which would materially affect the financial statements.

COMMITMENTS

During 1998, the Commission entered into a severance agreement with the Commission's office manager whereby the Commission would compensate the office manager in an amount equal to 12 months wages as severance pay if the Commission is ever dissolved into the City.

Note 10 RATE STABILIZATION RESERVE

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

Note 11 RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission is included in the City of North Branch's insurance coverage.

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

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

There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three fiscal years.

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SUPPLEMENTARY INFORMATION

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**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
SCHEDULE OF BONDED INDEBTEDNESS
December 31, 2005

Schedule 1

	\$3,000,000 Water System Revenue Bonds Series 2004	\$1,675,000 Electric Revenue Bonds of 1998	\$1,675,000 Electric Revenue Bonds of 2002	Total
Bonds payable	\$2,890,000	\$1,260,000	\$1,495,000	\$5,645,000
Future interest payable	1,248,299	487,964	733,834	2,470,097
Totals	<u>\$4,138,299</u>	<u>\$1,747,964</u>	<u>\$2,228,834</u>	<u>\$8,115,097</u>
Payments to maturity:				
2006	\$220,916	\$135,148	\$127,974	\$484,038
2007	218,328	136,558	131,386	486,272
2008	220,390	137,643	129,304	487,337
2009	217,390	133,523	132,030	482,943
2010	219,203	134,212	129,336	482,751
2011	220,566	134,550	131,640	486,756
2012	216,341	134,555	133,452	484,348
2013	216,703	134,290	130,052	481,045
2014	216,890	133,755	131,534	482,179
2015	216,758	132,950	132,622	482,330
2016	216,263	131,875	133,482	481,620
2017	220,250	135,395	128,924	484,569
2018	218,750	133,510	129,362	481,622
2019	217,050	-	129,412	346,462
2020	219,600	-	133,900	353,500
2021	216,388	-	132,862	349,250
2022	217,838	-	131,562	349,400
2023	213,950	-	-	213,950
2024	214,725	-	-	214,725
Totals	<u>\$4,138,299</u>	<u>\$1,747,964</u>	<u>\$2,228,834</u>	<u>\$8,115,097</u>

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
SCHEDULE OF BONDED INDEBTEDNESS - ELECTRIC FUND
December 31, 2005

	<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$1,675,000 Electric System Revenue Bonds of 1998					
	5/1/2006	4.90%	\$70,000	\$33,432	\$103,432
	11/1/2006	5.00%	-	31,716	31,716
	5/1/2007	5.00%	75,000	31,716	106,716
	11/1/2007	5.10%	-	29,842	29,842
	5/1/2008	5.10%	80,000	29,842	109,842
	11/1/2008	5.20%	-	27,801	27,801
	5/1/2009	5.20%	80,000	27,801	107,801
	11/1/2009	5.25%	-	25,722	25,722
	5/1/2010	5.25%	85,000	25,722	110,722
	11/1/2010	5.40%	-	23,490	23,490
	5/1/2011	5.40%	90,000	23,490	113,490
	11/1/2011	5.40%	-	21,060	21,060
	5/1/2012	5.40%	95,000	21,060	116,060
	11/1/2012	5.40%	-	18,495	18,495
	5/1/2013	5.40%	100,000	18,495	118,495
	11/1/2013	5.40%	-	15,795	15,795
	5/1/2014	5.40%	105,000	15,795	120,795
	11/1/2014	5.40%	-	12,960	12,960
	5/1/2015	5.40%	110,000	12,960	122,960
	11/1/2015	5.40%	-	9,990	9,990
	5/1/2016	5.40%	115,000	9,990	124,990
	11/1/2016	5.40%	-	6,885	6,885
	5/1/2017	5.40%	125,000	6,885	131,885
	11/1/2017	5.40%	-	3,510	3,510
	5/1/2018	5.40%	130,000	3,510	133,510
			<u>\$1,260,000</u>	<u>\$487,964</u>	<u>\$1,747,964</u>
	Total bonded indebtedness		<u>\$1,260,000</u>	<u>\$487,964</u>	<u>\$1,747,964</u>

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
SCHEDULE OF BONDED INDEBTEDNESS - ELECTRIC FUND
December 31, 2005

	<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$1,675,000 Electric System Revenue Bonds of 2002					
	6/1/2006	2.65%	\$ -	\$33,987	\$33,987
	12/1/2006	2.65%	60,000	33,987	93,987
	6/1/2007	3.20%	-	33,193	33,193
	12/1/2007	3.20%	65,000	33,193	98,193
	6/1/2008	3.50%	-	32,152	32,152
	12/1/2008	3.50%	65,000	32,152	97,152
	6/1/2009	3.85%	-	31,015	31,015
	12/1/2009	3.85%	70,000	31,015	101,015
	6/1/2010	3.85%	-	29,668	29,668
	12/1/2010	3.85%	70,000	29,668	99,668
	6/1/2011	4.25%	-	28,320	28,320
	12/1/2011	4.25%	75,000	28,320	103,320
	6/1/2012	4.25%	-	26,726	26,726
	12/1/2012	4.25%	80,000	26,726	106,726
	6/1/2013	4.40%	-	25,026	25,026
	12/1/2013	4.40%	80,000	25,026	105,026
	6/1/2014	4.60%	-	23,267	23,267
	12/1/2014	4.60%	85,000	23,267	108,267
	6/1/2015	4.60%	-	21,311	21,311
	12/1/2015	4.60%	90,000	21,311	111,311
	6/1/2016	4.80%	-	19,241	19,241
	12/1/2016	4.80%	95,000	19,241	114,241
	6/1/2017	4.80%	-	16,962	16,962
	12/1/2017	4.80%	95,000	16,962	111,962
	6/1/2018	4.95%	-	14,681	14,681
	12/1/2018	4.95%	100,000	14,681	114,681
	6/1/2019	5.25%	-	12,206	12,206
	12/1/2019	5.25%	105,000	12,206	117,206
	6/1/2020	5.25%	-	9,450	9,450
	12/1/2020	5.25%	115,000	9,450	124,450
	6/1/2021	5.25%	-	6,431	6,431
	12/1/2021	5.25%	120,000	6,431	126,431
	6/1/2022	5.25%	-	3,281	3,281
	12/1/2022	5.25%	125,000	3,281	128,281
			<u>\$1,495,000</u>	<u>\$733,834</u>	<u>\$2,228,834</u>
	Total bonded indebtedness		<u>\$1,495,000</u>	<u>\$733,834</u>	<u>\$2,228,834</u>

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**
SCHEDULE OF BONDED INDEBTEDNESS - WATER FUND
December 31, 2005

Schedule 3

	<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$3,000,000 Water System Revenue Bonds, Series 2004					
	3/1/2006	2.50%	\$115,000	\$53,533	\$168,533
	9/1/2006	2.50%	-	52,383	52,383
	3/1/2007	2.50%	115,000	52,383	167,383
	9/1/2007	2.50%	-	50,945	50,945
	3/1/2008	2.50%	120,000	50,945	170,945
	9/1/2008	2.50%	-	49,445	49,445
	3/1/2009	2.50%	120,000	49,445	169,445
	9/1/2009	2.50%	-	47,945	47,945
	3/1/2010	2.70%	125,000	47,945	172,945
	9/1/2010	2.70%	-	46,258	46,258
	3/1/2011	3.00%	130,000	46,258	176,258
	9/1/2011	3.00%	-	44,308	44,308
	3/1/2012	3.50%	130,000	44,308	174,308
	9/1/2012	3.50%	-	42,033	42,033
	3/1/2013	3.50%	135,000	42,033	177,033
	9/1/2013	3.50%	-	39,670	39,670
	3/1/2014	3.50%	140,000	39,670	179,670
	9/1/2014	3.50%	-	37,220	37,220
	3/1/2015	3.70%	145,000	37,220	182,220
	9/1/2015	3.70%	-	34,538	34,538
	3/1/2016	3.75%	150,000	34,538	184,538
	9/1/2016	3.75%	-	31,725	31,725
	3/1/2017	4.00%	160,000	31,725	191,725
	9/1/2017	4.00%	-	28,525	28,525
	3/1/2018	4.00%	165,000	28,525	193,525
	9/1/2018	4.00%	-	25,225	25,225
	3/1/2019	4.00%	170,000	25,225	195,225
	9/1/2019	4.00%	-	21,825	21,825
	3/1/2020	4.50%	180,000	21,825	201,825
	9/1/2020	4.50%	-	17,775	17,775
	3/1/2021	4.50%	185,000	17,775	202,775
	9/1/2021	4.50%	-	13,613	13,613
	3/1/2022	4.50%	195,000	13,613	208,613
	9/1/2022	4.50%	-	9,225	9,225
	3/1/2023	4.50%	200,000	9,225	209,225
	9/1/2023	4.50%	-	4,725	4,725
	3/1/2024	4.50%	210,000	4,725	214,725
	Total bonded indebtedness		<u>\$2,890,000</u>	<u>\$1,248,299</u>	<u>\$4,138,299</u>

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**

Schedule 4

SCHEDULE OF PURCHASED POWER AND SYSTEM PEAK LOAD - UNAUDITED

For The Year Ended December 31, 2005

Month	Date	Time of System Peak Load	Peak Load	Purchased Power	
				KWH	Total Cost
January	1/13/2005	7:00 PM	4940	2,745,240	\$137,281
February	2/7/2005	7:00 PM	4480	2,309,620	124,617
March	3/17/2005	10:00 AM	4060	2,455,500	128,295
April	4/18/2005	2:00 PM	4580	2,220,080	124,184
May	5/24/2005	2:00 PM	4460	2,318,900	127,095
June	6/23/2005	1:00 PM	6960	2,796,020	159,870
July	7/15/2005	2:00 PM	7060	3,177,940	171,249
August	8/2/2005	5:00 PM	6920	2,905,420	163,496
September	9/6/2005	5:00 PM	5320	2,384,540	130,703
October	10/3/2005	5:00 PM	4780	2,328,580	131,084
November	11/29/2005	6:00 PM	4620	2,421,160	125,139
December	12/19/2005	6:00 PM	4920	2,724,400	132,062
Totals				<u>30,787,400</u>	<u>\$1,655,075</u>

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**

ENTERPRISE FUNDS

SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

For The Year Ended December 31, 2005

	Capital Assets			
	Balance 12/31/2004	Additons	Deletions	
Electric utility:				
Land	\$16,005	\$ -	\$ -	\$16,005
Buildings	190,168	-	10,000	180,168
Equipment	1,802,840	-	41,981	1,760,859
Distribution system	3,709,721	99,937	-	3,809,658
Substations	386,945	-	-	386,945
Trucks	58,560	7,041	14,000	51,601
Computer	32,347	-	-	32,347
Office equipment and tools	25,251	8,495	-	33,746
Total electric utility	<u>6,221,837</u>	<u>115,473</u>	<u>65,981</u>	<u>6,271,329</u>
Water utility:				
Land	82,925	-	-	82,925
Filter building	28,648	-	-	28,648
Filter equipment	21,527	-	-	21,527
Fluoridation system	940	-	-	940
Distribution main and services	101,539	-	-	101,539
Water meters	30,531	46,865	-	77,396
Wells	45,572	830,441	-	876,013
Equipment	133,592	-	-	133,592
Computer	3,486	-	-	3,486
Watertower	1,772,706	-	-	1,772,706
Trucks	9,726	-	-	9,726
Distribution system	699,250	628,165	6,771	1,320,644
Construction in progress	256,070	662,574	830,441	88,203
Total water utility	<u>3,186,512</u>	<u>2,168,045</u>	<u>837,212</u>	<u>4,517,345</u>
Total utilities	<u>\$9,408,349</u>	<u>\$2,283,518</u>	<u>\$903,193</u>	<u>\$10,788,674</u>

Accumulated Depreciation

Rate	Balance 12/31/2004	Expenses	Deletions	Balance 12/31/2005	Net Capital Assets
0.0%	\$ -	\$ -	\$ -	\$ -	\$16,005
2.0%	53,744	3,603	10,000	47,347	132,821
3.5%	710,816	61,630	2,939	769,507	991,352
3.2%	1,247,973	121,909	-	1,369,882	2,439,776
3.5%	254,530	13,543	-	268,073	118,872
10.0%	56,025	5,160	14,000	47,185	4,416
20.0%	8,313	6,469	-	14,782	17,565
10.0%	25,251	3,375	-	28,626	5,120
	2,356,652	215,689	26,939	2,545,402	3,725,927
0.0%	-	-	-	-	82,925
2.0%	15,669	573	-	16,242	12,406
5.0%	21,527	-	-	21,527	-
5.0%	940	-	-	940	-
2.0%	101,539	-	-	101,539	-
5.0%	20,835	3,870	-	24,705	52,691
2.0%	17,372	9,472	-	26,844	849,169
5.0%	49,389	6,680	-	56,069	77,523
20.0%	3,486	-	-	3,486	-
2.0%	157,537	35,454	-	192,991	1,579,715
10.0%	3,985	973	-	4,958	4,768
3.3%	199,081	25,294	-	224,375	1,096,269
0.0%	-	-	-	-	88,203
	591,360	82,316	0	673,676	3,843,669
	\$2,948,012	\$298,005	\$26,939	\$3,219,078	\$7,569,596

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Tautges Redpath, Ltd.

Certified Public Accountants and Consultants
REPORT ON INTERNAL CONTROL

To the Board of Commissioners
North Branch Municipal Water and Light Commission
North Branch, Minnesota

In planning and performing our audit of the financial statements of the North Branch Municipal Water and Light Commission for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The reportable conditions are as follows:

- ◆ A substantial portion of certain accounting processes are performed by a single employee. Ideal conditions call for segregation of duties to establish a system of internal testing of procedures performed. This condition is common to entities of this size. Certain other safeguards have been established to compensate for this, including Board approval for all disbursements, Board review of interim financial data, etc. Any modification of internal control in this area must be viewed from a cost/benefit perspective.
- ◆ The North Branch Municipal Water and Light Commission currently does not maintain a complete listing of quantities and amounts of capital assets. This condition is common to entities of this size.
- ◆ The accounts receivable amounts in the North Branch Municipal Water and Light Commission's utility billing system are not reconciled to the general ledger on a monthly basis.

This report is intended solely for the information and use of the North Branch Municipal Water and Light Commission's management and Board of Commissioners and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

February 23, 2006

4810 White Bear Parkway	White Bear Lake, Minnesota	55110	651 426 7000	651 426 5004 Fax	www.hlbtr.com
1303 South Frontage Road	Suite 13	Hastings, Minnesota	55033	651 480 4990	

HLB Tautges Redpath, Ltd. is a member of International, a world-wide organization of accounting firms and business advisors.



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

REPORT ON COMPLIANCE WITH MINNESOTA LEGAL
COMPLIANCE AUDIT GUIDE FOR LOCAL GOVERNMENT

To the Board of Commissioners
North Branch Municipal Water and Light Commission
North Branch, Minnesota

We have audited the basic financial statements of the North Branch Municipal Water and Light Commission as of and for the year ended December 31, 2005 and have issued our report thereon dated February 23, 2006.

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

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories except miscellaneous provisions because this section applies to cities and counties only, and tax increment districts because the North Branch Municipal Water and Light Commission has no tax increment districts.

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

This report is intended solely for the information and use of the North Branch Municipal Water and Light Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB Tautges Redpath Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

February 23, 2006

4810 White Bear Parkway White Bear Lake, Minnesota 55110
1303 South Frontage Road Suite 13 Hastings, Minnesota 55033

651 426 7000 651 426 5004 Fax
651 480 4990 651 426 5004 Fax

www.hlbr.com



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AUDIT MANAGEMENT LETTER

To the Board of Commissioners
North Branch Municipal Water and Light Commission
North Branch, Minnesota

REQUIRED COMMUNICATIONS

We have audited the financial statements of the North Branch Municipal Water and Light Commission for the year ended December 31, 2005, and have issued our report thereon dated February 23, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 31, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the North Branch Municipal Water and Light Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the North Branch Municipal Water and Light Commission are described in Note 1 to the financial statements. For 2005, the Commission adopted GASB Statement No. 40, related to cash and investments, which revised the footnote disclosure. We noted no transactions entered into by the North Branch Municipal Water and Light Commission that were both significant and unusual, as of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

4810 White Bear Parkway White Bear Lake, Minnesota 55110
1303 South Frontage Road Suite 13 Hastings, Minnesota 55033

651 426 7000 651 426 5004 Fax
651 480 4990 651 426 5004 Fax

www.hlbtr.com

REQUIRED COMMUNICATIONS

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. For the North Branch Municipal Water and Light Commission, accounting estimates include fair value of investments and investment income, depreciable lives, and allowance for doubtful accounts.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the North Branch Municipal Water and Light Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the North Branch Municipal Water and Light Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the North Branch Municipal Water and Light Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Board of Commissioners
North Branch Municipal Water and Light Commission
February 23, 2006
Page 3

REQUIRED COMMUNICATIONS

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the North Branch Municipal Water and Light Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Closing

This information is intended solely for the information and use of the Board of Commissioners and management of the North Branch Municipal Water and Light Commission and is not intended to be and should not be used by anyone other than these specified parties.

HLB Tautges Repath Ltd.

HLB TAUTGES REPATH, LTD.
White Bear Lake, Minnesota

February 23, 2006