

**NORTH BRANCH MUNICIPAL  
WATER AND LIGHT COMMISSION**

North Branch, Minnesota

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

Year Ended December 31, 2009

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the North Branch Municipal Water and Light Commission as of and for the year ended December 31, 2009, which collectively comprise the North Branch Municipal Water and Light Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Branch Municipal Water and Light Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and each major fund of the North Branch Municipal Water and Light Commission, as of December 31, 2009, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Branch Municipal Water and Light Commission's basic financial statements. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
May 21, 2010

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## STATEMENT OF NET ASSETS December 31, 2009

	Business- type Activities
<b>ASSETS</b>	
Cash and investments	\$ 856,648
Customer accounts receivable	537,724
Due from primary government	30,819
Other receivables	104,310
Prepaid items and inventories	465,544
Restricted cash	6,298,240
Unamortized issuance costs	170,001
Capital Assets	
Construction in progress	2,468,659
Land	98,930
Other capital assets, net of depreciation	19,259,048
Total Assets	<u>30,289,923</u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	317,096
Accrued interest payable from restricted assets	299,356
Due to primary government	253,666
Customer deposits	67,520
Deferred rate stabilization	147,880
Noncurrent liabilities	
Due within one year	776,361
Due in more than one year	16,609,844
Total Liabilities	<u>18,471,723</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	9,394,316
Restricted for:	
Debt service	201,658
Capital projects	901,921
Unrestricted	<u>1,320,305</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 11,818,200</u>

See accompanying notes to financial statements.

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**NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION**

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2009

Functions/Programs	Program Revenues				Business-type Activities Totals
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Business-type Activities					
Electric	\$ 3,405,640	\$ 3,446,424	\$ -	\$ 5,175	\$ 45,959
Water	1,648,070	772,356	-	234,499	(641,215)
Total Business Type Activities	<u>\$ 5,053,710</u>	<u>\$ 4,218,780</u>	<u>\$ -</u>	<u>\$ 239,674</u>	<u>(595,256)</u>
General Revenues					
Investment income					246,251
Total General Revenues					<u>246,251</u>
<b>Change in Net Assets</b>					<b>(349,005)</b>
NET ASSETS - Beginning of Year					<u>12,167,205</u>
<b>NET ASSETS - END OF YEAR</b>					<b>\$ 11,818,200</b>

See accompanying notes to financial statements.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## STATEMENT OF NET ASSETS ENTERPRISE FUNDS December 31, 2009

<b>ASSETS</b>	Electric Utility	Water Utility	Totals
<b>CURRENT ASSETS</b>			
Cash and investments	\$ -	\$ 856,648	\$ 856,648
Customer accounts receivable	491,690	46,034	537,724
Due from primary government	-	30,819	30,819
Other receivables	-	104,310	104,310
Inventories	418,835	46,709	465,544
Total Current Assets	<u>910,525</u>	<u>1,084,520</u>	<u>1,995,045</u>
<b>NON-CURRENT ASSETS</b>			
Restricted assets			
Reserve account	374,789	991,123	1,365,912
Redemption account	120,463	380,551	501,014
Construction account	1,635,551	1,893,842	3,529,393
Water hookup charges	-	901,921	901,921
Capital assets			
Plant in service	7,396,580	17,374,962	24,771,542
Accumulated depreciation	(3,361,358)	(2,052,206)	(5,413,564)
Construction work in progress	1,494,762	973,897	2,468,659
Other assets			
Advance from other funds	-	317,042	317,042
Unamortized issuance costs	-	170,001	170,001
Total Non-Current Assets	<u>7,660,787</u>	<u>20,951,133</u>	<u>28,611,920</u>
Total Assets	<u>8,571,312</u>	<u>22,035,653</u>	<u>30,606,965</u>

	Electric Utility	Water Utility	Totals
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 279,680	\$ 11,243	\$ 290,923
Accrued expenses	26,173	-	26,173
Due to the primary government	228,948	24,718	253,666
Customer deposits	67,520	-	67,520
Deferred rate stabilization	147,880	-	147,880
Current portion of accrued compensated absences	18,453	7,908	26,361
Current portion of note payable	-	25,000	25,000
Current portion of loan from City of North Branch	-	10,000	10,000
Payable from restricted assets			
Current portion of revenue bonds	260,000	455,000	715,000
Accrued interest	76,357	222,999	299,356
Total Current Liabilities	<u>1,105,011</u>	<u>756,868</u>	<u>1,861,879</u>
<b>NON-CURRENT LIABILITIES</b>			
Accrued compensated absences	22,552	9,666	32,218
Advance to other funds	317,042	-	317,042
Note payable	-	35,000	35,000
Revenue bonds payable	4,610,000	11,840,000	16,450,000
Loan from City of North Branch	-	105,000	105,000
Unamortized debt premium	-	96,141	96,141
Unamortized debt discount	(50,849)	(57,666)	(108,515)
Total Non-Current Liabilities	<u>4,898,745</u>	<u>12,028,141</u>	<u>16,926,886</u>
Total Liabilities	<u>6,003,756</u>	<u>12,785,009</u>	<u>18,788,765</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,721,173	6,673,143	9,394,316
Restricted - redemption and replacement funding	44,106	1,059,473	1,103,579
Unrestricted (deficit)	(197,723)	1,518,028	1,320,305
<b>TOTAL NET ASSETS</b>	<u>\$ 2,567,556</u>	<u>\$ 9,250,644</u>	<u>\$ 11,818,200</u>

See accompanying notes to financial statements.



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# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

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

For the Year Ended December 31, 2009

	Electric Utility	Water Utility	Totals
<b>OPERATING REVENUES</b>	\$ 3,431,008	\$ 743,554	\$ 4,174,562
<b>OPERATING EXPENSES</b>			
Operation and maintenance	2,897,492	572,253	3,469,745
Depreciation	236,778	506,700	743,478
Total Operating Expenses	3,134,270	1,078,953	4,213,223
Operating Income	296,738	(335,399)	(38,661)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	192,560	53,691	246,251
Interest expense	(240,282)	(558,364)	(798,646)
Antenna rental	-	18,300	18,300
Fiscal agent charges	(2,600)	(2,050)	(4,650)
Miscellaneous non-operating revenues	15,416	10,502	25,918
Loss on sale of capital assets	(28,488)	-	(28,488)
Amortization expense	-	(8,703)	(8,703)
Total Non-Operating Revenue (Expenses)	(63,394)	(486,624)	(550,018)
Net Income Before Contributions	233,344	(822,023)	(588,679)
<b>CAPITAL CONTRIBUTIONS</b>			
Trunk fees	-	218,813	218,813
Connection charges	5,175	15,686	20,861
Total Capital Contributions	5,175	234,499	239,674
<b>CHANGE IN NET ASSETS</b>	238,519	(587,524)	(349,005)
NET ASSETS – Beginning of Year	2,329,037	9,838,168	12,167,205
<b>NET ASSETS – END OF YEAR</b>	<b>\$ 2,567,556</b>	<b>\$ 9,250,644</b>	<b>\$ 11,818,200</b>

See accompanying notes to financial statements.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## STATEMENT OF CASH FLOWS ENTERPRISE FUNDS For the Year Ended December 31, 2009

	Electric Utility	Water Utility	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 3,396,186	\$ 773,420	\$ 4,169,606
Cash received from city for services	-	-	-
Cash paid to suppliers for goods and services	(2,605,704)	(421,985)	(3,027,689)
Cash paid to employees for services	(286,199)	(139,576)	(425,775)
Net Cash Flows From Operating Activities	<u>504,283</u>	<u>211,859</u>	<u>716,142</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Advanced (to) from other funds for cash flow purposes	(48,394)	48,394	-
Net Cash Flows From (Used For) Noncapital Financing Activities	<u>(48,394)</u>	<u>48,394</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Marketable securities purchased	(25,881)	(225,000)	(250,881)
Marketable securities sold	1,565,728	1,216,122	2,781,850
Investment income	200,396	65,087	265,483
Net Cash Flows From (Used For) Investing Activities	<u>1,740,243</u>	<u>1,056,209</u>	<u>2,796,452</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Debt retired	(260,000)	(485,000)	(745,000)
Interest paid	(219,935)	(558,377)	(778,312)
Note receivable payments received	18,750	6,250	25,000
Contributions received for construction	5,175	130,189	135,364
Acquisition and construction of capital assets	(859,275)	(319,613)	(1,178,888)
Net Cash Flows From (Used For) Capital and Related Related Financing Activities	<u>(1,315,285)</u>	<u>(1,226,551)</u>	<u>(2,541,836)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	880,847	89,911	970,758
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,149,475</u>	<u>4,709,064</u>	<u>5,858,539</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,030,322</u>	<u>\$ 4,798,975</u>	<u>\$ 6,829,297</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Cash and Investments per Statement of Net Assets	\$ -	\$ 856,648	\$ 856,648
Restricted Cash and Investments per Statement of Net Assets	2,130,803	4,167,437	6,298,240
Less: Non-cash Equivalents	<u>(100,481)</u>	<u>(225,110)</u>	<u>(325,591)</u>
<b>CASH AND CASH EQUIVALENTS PER     STATEMENT OF CASH FLOWS</b>	<u>\$ 2,030,322</u>	<u>\$ 4,798,975</u>	<u>\$ 6,829,297</u>

	Electric Utility	Water Utility	Totals
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income	\$ 296,738	\$ (335,399)	\$ (38,661)
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities			
Non-operating revenues	12,816	29,681	42,497
Noncash items included in income			
Depreciation	236,778	506,700	743,478
Change in assets and liabilities			
Customer accounts receivable	(51,547)	3,965	(47,582)
Due from primary government	-	(3,780)	(3,780)
Inventories	21,329	(520)	20,809
Prepaid items	5,800	-	5,800
Accounts payable	(33,879)	4,206	(29,673)
Accrued expenses	10,216	-	10,216
Due to primary government	(1,163)	(541)	(1,704)
Accrued compensated absences	3,286	7,547	10,833
Customer deposits	3,909	-	3,909
	<u>3,909</u>	<u>-</u>	<u>3,909</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>\$ 504,283</u></b>	<b><u>\$ 211,859</u></b>	<b><u>\$ 716,142</u></b>

**NON-CASH CAPITAL, INVESTING AND FINANCING ACTIVITIES**

As of December 31, 2009, the water utility has a receivable from developers for \$104,310 of trunk fees.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The financial statements of the North Branch Municipal Water and Light Commission (the commission) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the commission are described below.

#### **A. REPORTING ENTITY**

This report includes all of the funds of the North Branch Municipal Water and Light Commission. The reporting entity for the commission consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. This report does not contain any component units.

The financial statements of the commission have been included in the financial reporting entity of the City of North Branch as a discretely presented component unit. The commission's Board of Commissioners is appointed by the City of North Branch and the City is in a relationship of financial benefit or burden with the Commission.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### ***B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS***

##### ***Government-Wide Financial Statements***

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The North Branch Municipal Water and Light Commission does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment income and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net assets, revenues, and expenses.

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

Funds are organized as major funds or non-major funds within the proprietary statements. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the commission or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenses of that individual enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all enterprise funds combined.
- c. In addition, any other fund that the commission believes is particularly important to financial statement users may be reported as a major fund.

The North Branch Municipal Water and Light Commission reports the following major enterprise funds:

Electric Utility – accounts for operations of the electric system  
Water Utility – accounts for operations of the water system

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

##### ***Government-Wide Financial Statements***

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

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

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### ***D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY***

##### ***1. Deposits and Investments***

For purposes of the statement of cash flows, the commission considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Minnesota statutes authorize the commission to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral. Investments are limited to:

- > Bonds, notes, bills, mortgages, and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by Congress.
- > State and local securities that meet specified bond ratings by a national rating service
- > Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.
- > Mutual fund through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments.
- > Banker's acceptances of United States banks.

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

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of accounting funds is allocated based on equity in the cash and investment pool. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

See Note III.A. for further information.

##### ***2. Receivables***

Customer accounts receivable in the electric utility fund have been shown net of an allowance for uncollectible accounts of \$186,766. All significant receivable balances are expected to be collected within one year. No allowance is considered necessary for water customer accounts since the utility can place delinquent water bills on the tax roll for collection. Unpaid water customer accounts certified for the tax roll of \$15,954 are reported as due from the primary government on the statement of net assets.



# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)*

##### **3. 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.

##### **4. Restricted Assets**

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

##### **5. Capital Assets**

Capital assets are generally defined by the commission as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets of the commission are recorded at cost or the fair market value at the time of contribution to the commission. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

Buildings and structures	50 Years
Machinery and equipment	5-33 Years
Distribution system	20-50 Years

##### **6. Compensated Absences**

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from the operating revenues of the commission.

Payments for vacation, sick leave and compensatory time will be made at rates in effect when the benefits are used. Accumulated vacation, sick leave and compensatory time liabilities at December 31, 2009 are determined on the basis of current salary rates and include salary related payments.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### **D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)**

##### **7. Long-Term Obligations**

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

##### **8. Charges for Services**

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

##### **9. Capital Contributed**

Cash and capital assets are contributed to the commission from customers or external parties. The value of property contributed to the commission is reported as revenue on the statements of revenues, expenses and changes in net assets.

##### **10. Equity Classifications**

###### **Government-Wide Statements**

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

### NOTE II – DETAILED NOTES ON ALL FUNDS

#### A. DEPOSITS AND INVESTMENTS

The commission's cash and investments at year end were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Checking and savings accounts	\$ 3,373,426	\$ 3,402,132	Custodial credit risk
Money market accounts	2,053,160	2,053,160	Custodial credit risk
Certificate of deposits	325,591	325,591	Custodial credit risk
Mutual funds	1,402,561	1,402,561	Credit and interest rate risks
Petty cash	150	-	N/A
 Total Cash and Investments	 \$ 7,154,888	 \$ 7,183,444	
 Reconciliation to financial statements			
Per statement of net assets			
Unrestricted cash and investments	\$ 856,648		
Restricted cash and investments	6,298,240		
 Total Cash and Investments	 \$ 7,154,888		

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing accounts and unlimited for noninterest bearing accounts.

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government). As of year end, each of the commission's three brokerage firms provide \$500,000 of coverage from SIPC. In addition to SIPC, the brokerage firms provide commercial insurance for balances in excess of \$500,000.

The commission maintains collateral agreements with two of its banks. At December 31, 2009, the banks had pledged various government securities in the amount of \$4,694,093 to secure the commission's deposits.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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

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#### A. DEPOSITS AND INVESTMENTS (cont.)

##### *Custodial Credit Risk*

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the commission's deposits may not be returned to the commission.

The commission does not have any deposits exposed to custodial credit risk.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The commission does not have any investments exposed to custodial credit risk.

##### *Credit Risk*

The commission has funds invested in four mutual funds. The commission has \$1,354,817 invested in a mutual fund rated A. The other three mutual funds totaling \$47,744 are rated AAA.

##### *Interest Rate Risk*

As of December 31, 2009 the commission's investments were as follows:

The commission has funds invested in three mutual funds. The commission has \$1,354,817 and \$561 invested in mutual funds with weighted average maturities of 2.69 and .06 years, respectively. The weighted average maturities are not available for the remaining mutual funds of \$47,183.

#### B. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

##### *Long Term Debt Accounts*

- Redemption – Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve – Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Construction – Used to report proceeds of revenue bond issuances that are restricted for use in construction.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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

#### B. RESTRICTED ASSETS (cont.)

##### *Hookup Charge Account*

The water utility collects trunk fees and connection charges which are restricted for major improvements to the water distribution system.

Following is a list of restricted assets at December 31, 2009:

	Restricted Assets	Liabilities Payable from Restricted Assets	Net Restricted Assets
Bond redemption account	\$ 501,014	\$ 299,356	\$ 201,658
Bond reserve account	1,365,912	-	n/a
Construction account	3,529,393	-	n/a
Water hookup charge account	901,921	-	901,921
Total Restricted Assets	\$ 6,298,240	\$ 299,356	\$ 1,103,579

#### C. INTERFUND ADVANCES

The electric utility owed the water utility \$317,042 due to an overdraft on pooled cash as of December 31, 2009. The amount is not expected to be repaid within one year.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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

#### D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Electric</u>				
Capital assets not being depreciated				
Construction in progress	\$ 981,022	\$ 513,740	\$ -	\$ 1,494,762
Land and land rights	16,005	-	-	16,005
Total Capital Assets Not Being Depreciated	997,027	513,740	-	1,510,767
Capital assets being depreciated				
Buildings and structures	180,168	-	-	180,168
Equipment and vehicles	1,934,026	-	27,093	1,906,933
Distribution system	4,943,937	455,537	106,000	5,293,474
Total Capital Assets Being Depreciated	7,058,131	455,537	133,093	7,380,575
Total Capital Assets	8,055,158	969,277	133,093	8,891,342
Less: Accumulated depreciation for				
Buildings and structures	(58,156)	(3,603)	-	(61,759)
Equipment and vehicles	(1,074,413)	(62,623)	-	(1,137,036)
Distribution system	(2,029,323)	(170,552)	(37,312)	(2,162,563)
Total Accumulated Depreciation	(3,161,892)	(236,778)	(37,312)	(3,361,358)
Net Electric Plant	\$ 4,893,266	\$ 732,499	\$ 95,781	\$ 5,529,984

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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

#### D. CAPITAL ASSETS (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Water</u>				
Capital assets not being depreciated				
Construction in progress	\$ 756,554	\$ 254,285	\$ 36,942	\$ 973,897
Land and land rights	82,925	-	-	82,925
Total Capital Assets Not Being Depreciated	839,479	254,285	36,942	1,056,822
Capital assets being depreciated				
Buildings and structures	1,801,354	-	-	1,801,354
Equipment and vehicles	404,474	5,967	18,273	392,168
Distribution system	15,052,309	46,206	-	15,098,515
Total Capital Assets Being Depreciated	17,258,137	52,173	18,273	17,292,037
Total Capital Assets	18,097,616	306,458	55,215	18,348,859
Less: Accumulated depreciation for				
Buildings and structures	(317,314)	(36,027)	-	(353,341)
Equipment and vehicles	(166,544)	(20,658)	-	(187,202)
Distribution system	(1,061,648)	(450,015)	-	(1,511,663)
Total Accumulated Depreciation	(1,545,506)	(506,700)	-	(2,052,206)
Net Water Plant	\$ 16,552,110	\$ (200,242)	\$ 55,215	\$ 16,296,653

Depreciation expense was charged to functions as follows:

#### Business-Type Activities

Electric	\$ 236,778
Water	506,700
Total Business-Type Activities Depreciation Expense	\$ 743,478

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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

#### E. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>BUSINESS-TYPE ACTIVITIES</b>					
Revenue bonds	\$ 17,860,000	\$ -	\$ 695,000	\$ 17,165,000	\$ 715,000
Add/(Subtract) Deferred Amounts For (Discounts)	(114,924)	-	(6,409)	(108,515)	-
Premium	102,733	-	6,592	96,141	-
Sub-totals	<u>17,847,809</u>	<u>-</u>	<u>695,183</u>	<u>17,152,626</u>	<u>715,000</u>
Other Liabilities					
Note payable	100,000	-	40,000	60,000	25,000
Loan from City of North Branch	125,000	-	10,000	115,000	10,000
Vested compensated absences	47,746	32,319	21,486	58,579	26,361
Total Other Liabilities	<u>272,746</u>	<u>32,319</u>	<u>71,486</u>	<u>233,579</u>	<u>61,361</u>
Total Business-Type Activities Long-Term Liabilities	<u>\$ 18,120,555</u>	<u>\$ 32,319</u>	<u>\$ 766,669</u>	<u>\$ 17,386,205</u>	<u>\$ 776,361</u>

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

	Date of Issue	Final Maturity	Interest Rates	Original Indebted- ness	Balance 12-31-09
<u>Electric Utility</u>					
Revenue Bonds	12/1/2002	12/1/2022	1.9 – 5.25%	\$ 1,675,000	\$ 1,235,000
Revenue Bonds	8/1/2008	8/1/2028	3.0 – 5.75%	2,790,000	2,685,000
Revenue Bonds	8/1/2008	8/1/2018	3.0 – 4.4%	1,035,000	950,000
				Total Electric Utility	<u>4,870,000</u>
<u>Water Utility</u>					
Revenue Bonds	3/1/2004	3/1/2024	2.0 – 4.5%	3,000,000	2,420,000
Revenue Bonds	8/1/2007	8/1/2027	4.5 – 4.75%	7,080,000	6,840,000
Revenue Bonds	8/1/2008	8/1/2033	2.0 – 5.0%	3,110,000	3,035,000
				Total Water Utility	<u>12,295,000</u>
Total Business-Type Activities Revenue Debt					<u>\$ 17,165,000</u>



# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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

#### E. LONG-TERM OBLIGATIONS (cont.)

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

<u>Years</u>	Business-Type Activities Revenue Debt	
	Principal	Interest
	2010	\$ 715,000
2011	745,000	757,931
2012	770,000	729,563
2013	800,000	697,725
2014	835,000	666,514
2015 – 2019	4,525,000	2,775,505
2020 – 2024	4,885,000	1,677,090
2025 – 2029	3,130,000	577,513
2030 – 2033	760,000	97,500
Totals	\$ 17,165,000	\$ 8,762,755

The note payable relates to acquisition of well #6 and is payable in annual installments of \$25,000 in 2010 and 2011 and \$10,000 in 2012. No interest is required by the agreement. The note will be paid by the water utility fund.

In 2009, the water utility received a loan from the City of North Branch related to acquisition of well #6. Principal and interest payments are due through February 1, 2019. Interest rates range from 6.5% to 7.25%. Debt service requirements for the loan are as follows:

<u>Years</u>	Business-Type Activities Loan from City of North Branch	
	Principal	Interest
	2010	\$ 10,000
2011	10,000	7,250
2012	10,000	6,525
2013	10,000	5,800
2014	10,000	5,075
2015 – 2019	65,000	12,869
Totals	\$ 115,000	\$ 45,494

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability will be liquidated by the electric and water utility funds.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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

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#### *E. LONG-TERM OBLIGATIONS (cont.)*

The electric utility has pledged future electric revenues, net of specified operating expenses, to repay \$5,500,000 in electric revenue bonds issued in 2002 and 2008. Proceeds from the bonds provided financing for utility system projects as well as refunding of bonds. The bonds are payable solely from electric revenues and are payable through 2028. Principal and interest paid for 2009 was \$479,935. Total customer net revenues as defined for the same period was \$726,076. Annual principal and interest payments are expected to require 52% of net revenues on average.

The water utility has pledged future water revenues, net of specified operating expenses, to repay \$13,190,000 in water revenue bonds issued in 2004, 2007 and 2008. Proceeds from the bonds provided financing for utility system projects. The bonds are payable solely from water revenues and are payable through 2033. Principal and interest paid for 2009 was \$988,379. Total customer net revenues as defined for the same period was \$455,913. Annual principal and interest payments are expected to require 171% of net revenues on average.

There are a number of limitations and restrictions contained in the various bond indentures and loan agreements. The commission believes it is in compliance with all significant limitations and restrictions, including federal arbitrage regulations except for the debt coverage requirement discussed below.

#### ***Bond Covenant Disclosures***

As of December 31, 2009 the commission was not in compliance with provision of the 2004, 2007, and 2008 water revenue bonds which require a 110% debt coverage requirement. The commission increased water rates 9% effective May 1, 2009 and another 15% effective January 2010. The commission will continue to monitor rates and expenses.

The water utility has the following number of connections for 2009: 1,537 residential and 215 commercial. The water utility billed for a total of 203,877,000 gallons in 2009.

# NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS December 31, 2009

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

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#### *F. NET ASSETS/FUND BALANCES*

Net assets reported on the statement of net assets at December 31, 2009 include the following:

#### *Business-Type Activities*

Invested in capital assets, net of related debt	
Construction in progress	\$ 2,468,659
Land	98,930
Other capital assets, net of accumulated depreciation	19,259,048
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(12,432,321)</u>
Total Invested in Capital Assets	<u>9,394,316</u>
Restricted	
Debt service	201,658
Water hookup charges	<u>901,921</u>
Total Restricted	<u>1,103,579</u>
Unrestricted	<u>1,320,305</u>
Total Business-Type Activities Net Assets	<u>\$ 11,818,200</u>

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### NOTE III – OTHER INFORMATION

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#### *A. EMPLOYEES' RETIREMENT SYSTEM*

##### *Plan Description*

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

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

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.

