

NORTH BRANCH MUNICIPAL WATER  
AND LIGHT COMMISSION  
NORTH BRANCH, MINNESOTA

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2019

NORTH BRANCH MUNICIPAL WATER  
AND LIGHT COMMISSION

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Dennis E. Oberloh, CPA  
Sara J. Oberloh, CPA



P.O. Box 186  
530 West Park Road  
Redwood Falls, MN 56283  
507-644-6400  
[www.oberlohcpa.com](http://www.oberlohcpa.com)

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and each major fund, of the North Branch Municipal Water and Light Commission, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to on the preceding page 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, Minnesota as of December 31, 2019, and the respective changes in financial position, and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension reporting schedules on pages 26 through 29 be presented to supplement the basic financial statements. The North Branch Municipal Water and Light Commission, has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The pension reporting schedules, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Branch Municipal Water and Light Commission, Minnesota's basic financial statements. The supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2020 on our consideration of North Branch Municipal Water and Light Commission, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Branch Municipal Water and Light Commission, Minnesota's internal control over financial reporting and compliance.

*Oberloh & Oberloh, Ltd.*  
Oberloh & Oberloh, Ltd.

June 16, 2020

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF NET POSITION  
DECEMBER 31, 2019

	<u>Business-Type Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 2,729,337
Receivables:	
Accounts Receivable	860,725
Due from Primary Government	36,317
Prepaid Expense	6,682
Inventory	286,728
Restricted Cash	3,850,008
Capital Assets:	
Nondepreciable	
Land	98,930
Depreciable, Net of Accumulated Depreciation	
Property and Equipment	<u>20,175,335</u>
TOTAL ASSETS	<u>28,044,062</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to Net Pension Liability	<u>103,739</u>
 <b>LIABILITIES</b>	
Accounts Payable	243,369
Accrued Expenses	15,137
Accrued Interest	100,323
Customer Deposits	134,548
Rate Stabilization	147,880
Due to the Primary Government	384,083
Noncurrent liabilities:	
Due within one year	1,093,000
Accrued Compensated Absences	117,246
Due in more than one year	9,831,000
Net Pension Liability	<u>597,108</u>
TOTAL LIABILITIES	<u>12,663,694</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to Net Pension Liability	<u>139,481</u>
 <b>NET POSITION</b>	
Net Investment in Capital Assets	9,350,265
Restricted for:	
Restricted - Redemption and Replacement Funding	3,749,685
Unrestricted	<u>2,244,676</u>
TOTAL NET POSITION	<u>\$ 15,344,626</u>

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Functions/Programs</u>	<u>Program Revenues</u>		<u>Net Sources (Uses) and Changes in Net Position</u>
	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Business-Type Activities Totals</u>
Business-Type Activities:			
Electric Utility	\$ 3,987,727	\$ 2,050	\$ 381,988
Water Utility	<u>1,649,540</u>	<u>222,515</u>	<u>746,864</u>
Total Business-Type Activities	<u>5,637,267</u>	<u>224,565</u>	<u>1,128,852</u>
General Revenues:			
Investment Income			10,877
Antenna Rental			31,670
Miscellaneous Income			<u>78,644</u>
Total General Revenues			<u>121,191</u>
Changes in Net Position			1,250,043
Net Position - January 1			<u>14,094,583</u>
Net Position - December 31			<u><u>\$ 15,344,626</u></u>

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
DECEMBER 31, 2019

	Electric	Water	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 1,371,384	\$ 1,357,953	\$ 2,729,337
Accounts Receivable	701,366	159,359	860,725
Due from Primary Government	28,472	7,845	36,317
Prepaid Expense	3,747	2,935	6,682
Inventory	<u>267,803</u>	<u>18,925</u>	<u>286,728</u>
Total Current Assets	<u>2,372,772</u>	<u>1,547,017</u>	<u>3,919,789</u>
<b>NONCURRENT ASSETS</b>			
Restricted Assets			
Reserve Account	637,743	2,496	640,239
Redemption Account	1,907,143	807,286	2,714,429
Water Hookup Charges	<u>-</u>	<u>495,340</u>	<u>495,340</u>
Total Restricted Assets	<u>2,544,886</u>	<u>1,305,122</u>	<u>3,850,008</u>
Capital Assets			
Land	16,005	82,925	98,930
Property and Equipment	15,375,993	20,666,434	36,042,427
Accumulated Depreciation	<u>(8,112,573)</u>	<u>(7,754,519)</u>	<u>(15,867,092)</u>
Net Capital Assets	<u>7,279,425</u>	<u>12,994,840</u>	<u>20,274,265</u>
Other Assets			
Advance to Other Funds	<u>-</u>	<u>57,061</u>	<u>57,061</u>
Total Noncurrent Assets	<u>9,824,311</u>	<u>14,357,023</u>	<u>24,181,334</u>
<b>TOTAL ASSETS</b>	<b>12,197,083</b>	<b>15,904,040</b>	<b>28,101,123</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to Net Pension Liability	<u>65,903</u>	<u>37,836</u>	<u>103,739</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 12,262,986</u></b>	<b><u>\$ 15,941,876</u></b>	<b><u>\$ 28,204,862</u></b>

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



NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
DECEMBER 31, 2019

	Electric	Water	Total
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 189,594	\$ 53,775	\$ 243,369
Accrued Expenses	14,345	792	15,137
Customer Deposits	134,548	-	134,548
Rate Stabilization	147,880	-	147,880
Due to the Primary Government	379,495	4,588	384,083
Current Amount of Long-Term Debt Payable from Restricted Assets	379,000	714,000	1,093,000
Accrued Interest	<u>26,135</u>	<u>74,188</u>	<u>100,323</u>
Total Current Liabilities	<u>1,270,997</u>	<u>847,343</u>	<u>2,118,340</u>
<b>LONG-TERM LIABILITIES</b>			
Accrued Compensated Absences	66,163	51,083	117,246
Advance from Other Funds	57,061	-	57,061
Bonds Payable	4,186,000	5,645,000	9,831,000
Net Pension Liability	<u>366,704</u>	<u>230,404</u>	<u>597,108</u>
Total Long-Term Liabilities	<u>4,675,928</u>	<u>5,926,487</u>	<u>10,602,415</u>
<b>TOTAL LIABILITIES</b>	<u>5,946,925</u>	<u>6,773,830</u>	<u>12,720,755</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to Net Pension Liability	<u>83,182</u>	<u>56,299</u>	<u>139,481</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	2,714,425	6,635,840	9,350,265
Restricted - Redemption and Replacement Funding	2,518,751	1,230,934	3,749,685
Unrestricted	<u>999,703</u>	<u>1,244,973</u>	<u>2,244,676</u>
Total Net Position	<u>6,232,879</u>	<u>9,111,747</u>	<u>15,344,626</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 12,262,986</u>	<u>\$ 15,941,876</u>	<u>\$ 28,204,862</u>

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
OPERATING REVENUES			
Operating Revenues	\$ <u>4,367,665</u>	\$ <u>2,173,889</u>	\$ <u>6,541,554</u>
OPERATING EXPENSES			
Operation and Maintenance	3,307,072	855,085	4,162,157
Depreciation	<u>511,595</u>	<u>591,478</u>	<u>1,103,073</u>
Total Operating Expenses	<u>3,818,667</u>	<u>1,446,563</u>	<u>5,265,230</u>
OPERATING INCOME	<u>548,998</u>	<u>727,326</u>	<u>1,276,324</u>
NON OPERATING REVENUE AND EXPENSES			
Investment Income	3,600	7,275	10,875
Antenna Rental	-	31,670	31,670
Miscellaneous Income	78,646	-	78,646
Interest Expense	<u>(169,060)</u>	<u>(202,977)</u>	<u>(372,037)</u>
Total Non Operating Revenue and Expenses	<u>(86,814)</u>	<u>(164,032)</u>	<u>(250,846)</u>
NET INCOME BEFORE CONTRIBUTIONS	462,184	563,294	1,025,478
CAPITAL CONTRIBUTIONS			
Connection Charges	<u>2,050</u>	<u>222,515</u>	<u>224,565</u>
CHANGE IN NET POSITION	464,234	785,809	1,250,043
NET POSITION - January 1	<u>5,768,645</u>	<u>8,325,938</u>	<u>14,094,583</u>
NET POSITION - December 31	<u>\$ 6,232,879</u>	<u>\$ 9,111,747</u>	<u>\$15,344,626</u>

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from Customers	\$ 4,401,266	\$ 2,224,228	\$ 6,625,494
Payments to Vendors	(2,731,263)	(413,171)	(3,144,434)
Payments to Employees	(580,827)	(410,653)	(991,480)
Other Receipts and Payments	<u>78,646</u>	<u>31,670</u>	<u>110,316</u>
Net Cash Provided By Operating Activities	<u>1,167,822</u>	<u>1,432,074</u>	<u>2,599,896</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Due to Other Funds	<u>57,061</u>	<u>(57,061)</u>	<u>-</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>57,061</u>	<u>(57,061)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchase of Capital Assets	(90,503)	(295,000)	(385,503)
Principal Paid on Capital Debt	(370,000)	(695,000)	(1,065,000)
Interest Paid on Capital Debt	(170,766)	(197,512)	(368,278)
Contributions received for Construction	<u>2,050</u>	<u>222,515</u>	<u>224,565</u>
Net Cash Used By Capital and Related Financing Activities	<u>(629,219)</u>	<u>(964,997)</u>	<u>(1,594,216)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest Received	<u>3,600</u>	<u>7,275</u>	<u>10,875</u>
Net Cash Provided By Investing Activities	<u>3,600</u>	<u>7,275</u>	<u>10,875</u>
<b>NET INCREASE IN CASH</b>	599,264	417,291	1,016,555
<b>CASH AND CASH EQUIVALENTS - January 1</b>	<u>3,317,006</u>	<u>2,245,784</u>	<u>5,562,790</u>
<b>CASH AND CASH EQUIVALENTS - December 31</b>	<u>\$ 3,916,270</u>	<u>\$ 2,663,075</u>	<u>\$ 6,579,345</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Cash and Investments per Statement of Net Position	\$ 1,371,384	\$ 1,357,953	\$ 2,729,337
Restricted Cash and Investments per Statement of Net Position	<u>2,544,886</u>	<u>1,305,122</u>	<u>3,850,008</u>
<b>CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS</b>	<u>\$ 3,916,270</u>	<u>\$ 2,663,075</u>	<u>\$ 6,579,345</u>

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Electric	Water	Total
Reconciliation of Operating Income to Net Cash Provided			
By Operating Activities			
Operating Income	\$ 548,998	\$ 727,326	\$ 1,276,324
Adjustments to Reconcile Operating Income to Net Cash			
Provided By Operating Activities			
Depreciation	511,595	591,478	1,103,073
Noncash Pension Expense	8,398	6,054	14,452
Changes in Assets and Liabilities			
Accounts Receivable	31,738	8,059	39,797
Due from the Primary Government	(4,901)	42,280	37,379
Inventory	(34,129)	(8,016)	(42,145)
Prepaid Expense	743	(201)	542
Accounts Payable	(4,470)	17,939	13,469
Accrued Expenses	(3,267)	(497)	(3,764)
Accrued Compensated Absences	18,365	11,394	29,759
Due to the Primary Government	9,342	4,588	13,930
Customer Deposits	6,764	-	6,764
Other Revenues and Expenses	<u>78,646</u>	<u>31,670</u>	<u>110,316</u>
Net Cash Provided By Operating Activities	<u>\$ 1,167,822</u>	<u>\$ 1,432,074</u>	<u>\$ 2,599,896</u>

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the non fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these financial statements. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

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

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

- a. Total assets, liabilities, revenues 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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

The Commission reports the following major enterprise funds:

- Electric Utility - Accounts for operations of the electric system.
- Water Utility - Accounts for operations of the water system.

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

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

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

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

D. Use of Estimates

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Restricted Assets

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

F. Encumbrances

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

G. Deposits and Investments

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

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

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

H. Accounts Receivable

Customer accounts receivable in the electric utility fund have been shown net of an allowance for uncollectible accounts of \$102,194. All significant receivable balances are expected to be collected within one year. The allowance account considers water and electric customer accounts can be placed on the tax roll for collection when delinquent. Unpaid water and electric customer accounts certified for the tax roll during 2019 and 2018 of \$17,329 and \$12,143, respectively, are reported as due from the primary government on the statement of net position.

I. Inventories

Inventories are generally used for construction and for operation and maintenance work. They are not for resale. They are valued at the lower of cost or market utilizing the first in/first out (FIFO) method and charged to construction or operation and maintenance expense when used.

J. Interfund Receivables and Payables

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

K. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Capital Assets

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

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

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

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

M. 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, 2019 are determined on the basis of current salary rates and include salary related payments.

N. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type statement of net position.

O. Pensions

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



NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. Charges for Services

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

Q. Capital Contributed

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

R. Net Position

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

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

2. DEPOSITS AND INVESTMENTS

A. Cash and Cash Investments

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

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

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

At year end, the Commission’s carrying amount of deposits was \$6,579,195 and the bank balance was \$6,652,783. Of the bank balance, \$750,000 was covered by federal depository insurance. Of the remaining balance, \$5,902,783 was collateralized with securities held by the pledging financial institution’s trust department in the Commission’s name.

B. Investments

The City maintains no investment accounts.

C. Cash on Hand

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS (Cont.)

D. Cash and Investments Summary

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

Total Deposits	\$ 6,579,195
Total Cash on Hand	<u>150</u>
	<u>\$ 6,579,345</u>
Statement of Net Position	
Cash and Cash Investments	\$ 2,729,337
Restricted Assets	<u>3,850,008</u>
	<u>\$ 6,579,345</u>

E. Restricted Assets

The following represent the balances of the restricted assets:

Long Term Debt Accounts

Redemption - Used to segregate resources accumulated for debt service payments over the next twelve months

Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption accounts.

Construction - Used to report proceeds of revenue bond issuances that are restricted for use in construction.

Hookup Charge Account

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

The following is a list of restricted assets at December 31, 2019:

	Restricted Assets	Liabilities Payable from Restricted Assets	Net Restricted Assets
Bond Redemption Account	\$ 2,714,429	\$ 100,323	\$ 2,614,106
Bond Reserve Account	640,239	-	640,239
Water Hookup Charge Account	<u>495,340</u>	<u>-</u>	<u>495,340</u>
Total Restricted Assets	<u>\$ 3,850,008</u>	<u>\$ 100,323</u>	<u>\$ 3,749,685</u>

3. DUE TO AND FROM OTHER FUNDS

Due to and from other funds at December 31, 2019, follows:

	Due from Other Funds	Due to Other Funds
Water Fund	\$ 57,061	\$ -
Electric Fund	<u>-</u>	<u>57,061</u>
	<u>\$ 57,061</u>	<u>\$ 57,061</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

3. DUE TO AND FROM OTHER FUNDS (Cont.)

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

4. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 for the Electric Utility was as follows:

	Balance <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	Balance <u>December 31</u>
Not Being Depreciated:				
Land	\$ 16,005	\$ -	\$ -	\$ 16,005
Subtotal	<u>16,005</u>	<u>-</u>	<u>-</u>	<u>16,005</u>
Other Capital Assets:				
Buildings and Structures	282,362	-	-	282,362
Equipment and Vehicles	5,955,757	17,914	-	5,973,671
Distribution System	<u>9,047,371</u>	<u>72,589</u>	<u>-</u>	<u>9,119,960</u>
Subtotal	<u>15,285,490</u>	<u>90,503</u>	<u>-</u>	<u>15,375,993</u>
Less: Accumulated Depreciation				
Buildings and Structures	94,186	3,603	-	97,789
Equipment and Vehicles	2,710,494	207,909	-	2,918,403
Distribution System	<u>4,796,298</u>	<u>300,083</u>	<u>-</u>	<u>5,096,381</u>
Subtotal	<u>7,600,978</u>	<u>511,595</u>	<u>-</u>	<u>8,112,573</u>
Net Other Capital Assets	<u>7,684,512</u>	<u>(421,092)</u>	<u>-</u>	<u>7,263,420</u>
Net Electric Plant	<u>\$ 7,700,517</u>	<u>\$ (421,092)</u>	<u>\$ -</u>	<u>\$ 7,279,425</u>

Capital asset activity for the year ended December 31, 2019 for the Water Utility was as follows:

	Balance <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	Balance <u>December 31</u>
Not Being Depreciated:				
Land	\$ 82,925	\$ -	\$ -	\$ 82,925
Subtotal	<u>82,925</u>	<u>-</u>	<u>-</u>	<u>82,925</u>
Other Capital Assets:				
Buildings and Structures	1,901,154	-	-	1,901,154
Equipment and Vehicles	748,396	-	-	748,396
Distribution System	<u>17,721,884</u>	<u>295,000</u>	<u>-</u>	<u>18,016,884</u>
Subtotal	<u>20,371,434</u>	<u>295,000</u>	<u>-</u>	<u>20,666,434</u>
Less: Accumulated Depreciation				
Buildings and Structures	684,569	38,023	-	722,592
Equipment and Vehicles	465,601	39,303	-	504,904
Distribution System	<u>6,012,871</u>	<u>514,152</u>	<u>-</u>	<u>6,527,023</u>
Subtotal	<u>7,163,041</u>	<u>591,478</u>	<u>-</u>	<u>7,754,519</u>
Net Other Capital Assets	<u>13,208,393</u>	<u>(296,478)</u>	<u>-</u>	<u>12,911,915</u>
Net Water Plant	<u>\$ 13,291,318</u>	<u>\$ (296,478)</u>	<u>\$ -</u>	<u>\$ 12,994,840</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN CAPITAL ASSETS (Cont.)

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

Business-Type Activities:	
Electric Utility	\$ 511,595
Water Utility	<u>591,478</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,103,073</u>

5. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Commission for the year ended December 31, 2019.

	<u>Balance</u> <u>December 31</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Balance</u> <u>December 31</u>	<u>Current Amount</u>
Electric Utility					
Revenue Bonds	\$ 4,935,000	\$ -	\$ 370,000	\$ 4,565,000	\$ 379,000
Water Utility					
Revenue Bonds	<u>7,054,000</u>	<u>-</u>	<u>695,000</u>	<u>6,359,000</u>	<u>714,000</u>
Totals	<u>\$11,989,000</u>	<u>\$ -</u>	<u>\$1,065,000</u>	<u>\$10,924,000</u>	<u>\$ 1,093,000</u>

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

Bonds outstanding at December 31, 2019 are comprised of the following issues:

Business-Type Activities

\$8,024,000 Water System Revenue Refunding Bonds of 2017A, due in annual installments of \$146,000 to \$768,000 through August 1, 2033, plus interest at 2.8% due in semi-annual installments. \$ 6,359,000

\$2,561,000 Electric System Revenue Refunding Bonds of 2017A, due in annual installments of \$135,000 to \$212,000 through November 1, 2035, plus interest at 3.3% due in semi-annual installments. 2,561,000

\$3,350,000 Electric System Revenue Bonds of 2010A, due in annual installments of \$80,000 to \$210,000 through November 1, 2035, plus interest at 3.5 to 7.30% due in semi-annual installments. 110,000

\$2,662,000 Electric System Revenue Refunding Bonds of 2016A, due in annual installments of \$169,000 to \$281,000 through November 1, 2028, plus interest at 2.45% due in semi-annual installments. This bond was used to refund the Electric System Revenue Bonds of 2002 and Electric System Revenue Bonds of 2008B. 1,894,000

Total Long-Term Debt \$10,924,000

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

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

	Revenue Bonds		
	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,093,000	\$ 419,377	\$ 1,512,377
2021	1,144,000	282,385	1,426,385
2022	1,173,000	250,652	1,423,652
2023	1,082,000	218,096	1,300,096
2024	940,000	187,675	1,127,675
2025-2029	3,672,000	571,173	4,243,173
2030-2034	1,608,000	178,288	1,786,288
2035-2039	<u>212,000</u>	<u>6,996</u>	<u>218,996</u>
Total	<u>\$ 10,924,000</u>	<u>\$ 2,114,642</u>	<u>\$ 13,038,642</u>

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

Business-Type Activities:	
Electric	\$ 169,060
Water	<u>202,977</u>
Total Interest Expense - Business-Type Activities	<u>\$ 372,037</u>

6. NET POSITION

Net position reported on the statement of net position at December 31, 2019 include the following:

Business-Type Activities

Net Investment in Capital Assets

Land	\$ 98,930
Other capital assets, net of accumulated depreciation	20,175,335
Less: related long-term debt outstanding (excluding unspent debt refunding proceeds)	<u>(10,924,000)</u>
Total Net Investment in Capital Assets	<u>9,350,265</u>

Restricted

Debt Service	3,254,345
Water Hookup Charges	<u>495,340</u>
Total Restricted	<u>3,749,685</u>

Unrestricted

Total Business-Type Activities Net Position	<u>2,244,676</u>
	<u>\$ 15,344,626</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

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

**1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))**

All full-time and certain part-time employees of the North Branch Municipal Water and Light Commission, Minnesota are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

**1. General Employees Plan Benefits**

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Effective January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, within a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

C. Contributions (Cont.)

**1. General Employees Fund Contributions**

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the North Branch Municipal Water and Light Commission, Minnesota was required to contribute 7.50% for Coordinated Plan members. The North Branch Municipal Water and Light Commission, Minnesota contributions to the General Employees Fund for the year ended December 31, 2019, were \$59,227. The North Branch Municipal Water and Light Commission, Minnesota contributions were equal to the required contributions as set by state statute.

D. Pension Costs

**1. General Employees Fund Pension Costs**

At December 31, 2019, the North Branch Municipal Water and Light Commission, Minnesota reported a liability of \$597,108 for its proportionate share of the General Employees Fund's net pension liability. The North Branch Municipal Water and Light Commission, Minnesota's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the North Branch Municipal Water and Light Commission, Minnesota totaled \$18,499. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The North Branch Municipal Water and Light Commission, Minnesota proportion share of the net pension liability was based on the North Branch Municipal Water and Light Commission, Minnesota contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the North Branch Municipal Water and Light Commission, Minnesota proportionate share was 0.0108% which was an increase of 0.0001% from its proportion measured as of June 30, 2018.

North Branch Municipal Water and Light Commission proportionate share of the net pension liability	\$ 597,108
State of Minnesota's proportionate share of the net pension liability associated with the North Branch Municipal Water and Light Commission	<u>18,499</u>
Total	<u>\$ 615,607</u>

For the year ended December 31, 2019, the North Branch Municipal Water and Light Commission, Minnesota recognized pension expense of \$54,135 for its proportionate share of the General Employees Plan's pension expense. In addition, the North Branch Municipal Water and Light Commission, Minnesota recognized an additional \$1,386 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

D. Pension Costs (Cont.)

At December 31, 2019, the North Branch Municipal Water and Light Commission, Minnesota reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 16,321	\$ -
Changes in actuarial assumptions	-	45,949
Difference between projected and actual investment earnings	-	60,060
Changes in proportion	19,826	-
Contributions paid to PERA subsequent to the measurement date	<u>34,120</u>	<u>-</u>
Total	<u>\$ 70,267</u>	<u>\$ 106,009</u>

The \$34,120 reported as deferred outflows of resources related to pensions resulting from North Branch Municipal Water and Light Commission, Minnesota contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Pension Expense Amount</u>
2020	\$ (20,575)
2021	\$ (41,390)
2022	\$ (10,986)
2023	\$ 3,089
2024	\$ -
Thereafter	\$ -

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1.25 percent per year for the General Employees Plan, 1.0 percent per year for the Police and Fire Plan, and 2.0 percent per year for the correctional Plan.



NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

E. Actuarial Assumptions (Cont.)

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent five-year experience study for the Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2019:

**General Employees Fund**

- The mortality projection scale was changed from MP-2017 to MP-2018
- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20%	0.75%
International Equity	17.5%	5.90%
Cash	<u>2%</u>	0.00%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumption, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
General Employees Fund:	\$ 981,813	\$ 597,108	\$ 279,622

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

8. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2019.

9. COMMITMENTS AND CONTINGENCIES

A. Risk Management

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

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

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
NOTES TO FINANCIAL STATEMENTS

9. COMMITMENTS AND CONTINGENCIES (Cont.)

B. Claims and Judgments

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

From time to time, the Commission is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Commission's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Commission's financial position or results of operations.

The Commission purchases power from the Southern Minnesota Municipal Power Agency (SMMPA) under a power sales contract which extends to April 2050. Under the terms of the contract, the Commission is obligated to buy all the electrical power and energy needs to operate the electric utilities through the term of the contract. In addition, on August 17, 2010, the Commission entered a 25 year Capacity Purchase Agreement with SMMPA, whereby SMMPA is entitled to the exclusive use of the net electric generating capability of the Diesel Generating facilities and the electric energy associated therewith. Under terms of the agreement, SMMPA is responsible for the fuel costs and North Branch Municipal Water and Light Commission is responsible for all other costs associated with the operation, maintenance, repairs, and other liabilities of operating the Diesel Generating Facilities.

10. OTHER INFORMATION

A. Rate Stabilization Reserve

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

11. SUBSEQUENT EVENTS

Management evaluated all activity of North Branch Municipal Water and Light Commission through June 16, 2020 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2019

Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset)	Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2019	0.0108 %	597,108	763,640	78.19 %	80.20 %
June 30, 2018	0.0107 %	593,592	717,240	82.76 %	79.50 %
June 30, 2017	0.0104 %	663,929	672,507	98.72 %	75.90 %
June 30, 2016	0.0101 %	820,070	627,360	130.72 %	68.90 %
June 30, 2015	0.0104 %	538,982	621,455	86.73 %	78.19 %

The City implemented GASB Statement No. 68 for fiscal year ended December 31, 2015.  
Information for prior years is not available.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2019

Fiscal Year Ended	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contributions Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
December 31, 2019	\$ 59,227	\$ 59,227	-	\$ 789,693	7.50 %
December 31, 2018	\$ 55,081	\$ 55,081	-	\$ 734,413	7.50 %
December 31, 2017	\$ 52,561	\$ 52,561	-	\$ 700,813	7.50 %
December 31, 2016	\$ 48,098	\$ 48,098	-	\$ 641,307	7.50 %
December 31, 2015	\$ 45,720	\$ 45,720	-	\$ 609,600	7.50 %

The City implemented GASB Statement No. 68 for fiscal year ended December 31, 2015.  
Information for prior years is not available.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

**General Employees Fund**

2019 Changes

*Change in Actuarial Assumptions*

- The morality projection scale was changed from MP-2017 to MP-2018

*Changes in Plan Provisions*

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

*Changes in Actuarial Assumptions*

- The morality projection scale was changed from MP-2015 to MP-2017
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

*Changes in Plan Provisions*

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and no more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

*Changes in Actuarial Assumptions*

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

*Changes in Plan Provisions*

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

2016 Changes

*Changes in Actuarial Assumptions*

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increase, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

*Changes in Plan Provisions*

- There have been no changes since the prior valuation.

2015 Changes

*Changes in Actuarial Assumptions*

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

*Changes in Plan Provisions*

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.



SUPPLEMENTARY INFORMATION

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
 SCHEDULE OF BONDED INDEBTEDNESS  
 DECEMBER 31, 2019

	\$8,024,000		\$2,561,000		\$3,350,000	
	Water	\$2,662,000	Electric	\$3,350,000		
	Revenue	Electric	Revenue	Electric		
	Refunding	Revenue	Refunding	Revenue		
	Bonds of	Bonds of	Bonds of	Bonds of		
	<u>2017A</u>	<u>2016A</u>	<u>2017D</u>	<u>2010A</u>		<u>Totals</u>
Bonds Payable	\$ 6,359,000	\$ 1,894,000	\$ 2,561,000	\$ 110,000		\$ 10,924,000
Future Interest Payable	<u>962,332</u>	<u>212,464</u>	<u>811,437</u>	<u>110,410</u>		<u>2,096,643</u>
Total	<u>\$ 7,321,332</u>	<u>\$ 2,106,464</u>	<u>\$ 3,372,437</u>	<u>\$ 220,410</u>		<u>\$ 13,020,643</u>
Payments to Maturity:						
2020	892,052	315,403	84,513	220,410		1,512,378
2021	889,060	317,812	219,513	-		1,426,385
2022	890,592	314,002	219,058	-		1,423,652
2023	884,508	196,117	219,471	-		1,300,096
2024	717,004	190,952	219,719	-		1,127,675
2025	671,588	191,812	218,802	-		1,082,202
2026	669,956	191,548	218,753	-		1,080,257
2027	667,904	195,188	219,539	-		1,082,631
2028	172,432	193,630	219,127	-		585,189
2029	175,344	-	219,550	-		394,894
2030	171,060	-	218,775	-		389,835
2031	172,776	-	218,835	-		391,611
2032	173,324	-	219,697	-		393,021
2033	173,732	-	219,328	-		393,060
2034	-	-	218,761	-		218,761
2035	<u>-</u>	<u>-</u>	<u>218,996</u>	<u>-</u>		<u>218,996</u>
<b>TOTALS</b>	<u>\$ 7,321,332</u>	<u>\$ 2,106,464</u>	<u>\$ 3,372,437</u>	<u>\$ 220,410</u>		<u>\$ 13,020,643</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF DEBT MATURITIES  
DECEMBER 31, 2019

\$8,024,000 Water System Revenue Refunding Bond of 2017A

<u>Year</u>	<u>Interest Rate</u>	<u>February 1</u>	<u>August 1</u>	<u>August 1</u>	<u>Total</u>
2020	2.80%	\$ 89,026	\$ 714,000	\$ 89,026	\$ 892,052
2021	2.80%	79,030	731,000	79,030	889,060
2022	2.80%	68,796	753,000	68,796	890,592
2023	2.80%	58,254	768,000	58,254	884,508
2024	2.80%	47,502	622,000	47,502	717,004
2025	2.80%	38,794	594,000	38,794	671,588
2026	2.80%	30,478	609,000	30,478	669,956
2027	2.80%	21,952	624,000	21,952	667,904
2028	2.80%	13,216	146,000	13,216	172,432
2029	2.80%	11,172	153,000	11,172	175,344
2030	2.80%	9,030	153,000	9,030	171,060
2031	2.80%	6,888	159,000	6,888	172,776
2032	2.80%	4,662	164,000	4,662	173,324
2033	2.80%	2,366	169,000	2,366	173,732
<b>Total</b>		<b>\$ 481,166</b>	<b>\$ 6,359,000</b>	<b>\$ 481,166</b>	<b>\$ 7,321,332</b>

\$2,561,000 Electric System Revenue Refunding Bonds of 2017D

<u>Year</u>	<u>Interest Rate</u>	<u>May 1</u>	<u>November 1</u>	<u>November 1</u>	<u>Total</u>
2020	3.30%	\$ 42,256	-	\$ 42,257	\$ 84,513
2021	3.30%	42,256	\$ 135,000	42,257	219,513
2022	3.30%	40,029	139,000	40,029	219,058
2023	3.30%	37,735	144,000	37,735	219,470
2024	3.30%	35,359	149,000	35,360	219,719
2025	3.30%	32,901	153,000	32,901	218,802
2026	3.30%	30,376	158,000	30,377	218,753
2027	3.30%	27,769	164,000	27,770	219,539
2028	3.30%	25,063	169,000	25,064	219,127
2029	3.30%	22,275	175,000	22,275	219,550
2030	3.30%	19,387	180,000	19,388	218,775
2031	3.30%	16,417	186,000	16,418	218,835
2032	3.30%	13,349	193,000	13,348	219,697
2033	3.30%	10,164	199,000	10,164	219,328
2034	3.30%	6,880	205,000	6,881	218,761
2035	3.30%	3,499	212,000	3,498	218,997
<b>Total</b>		<b>\$ 405,715</b>	<b>\$ 2,561,000</b>	<b>\$ 405,722</b>	<b>\$ 3,372,437</b>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF DEBT MATURITIES  
DECEMBER 31, 2019

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

<u>Year</u>	<u>Interest Rate</u>	<u>May 1 Interest</u>	<u>November 1 Principal</u>	<u>November 1 Interest</u>	<u>Total</u>
2020	4.60%	\$ <u>55,205</u>	\$ <u>110,000</u>	\$ <u>55,205</u>	\$ <u>220,410</u>
Total		\$ <u>55,205</u>	\$ <u>110,000</u>	\$ <u>55,205</u>	\$ <u>220,410</u>

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

<u>Year</u>	<u>Interest Rate</u>	<u>May 1 Interest</u>	<u>November 1 Principal</u>	<u>November 1 Interest</u>	<u>Total</u>
2020	2.45%	\$ 23,202	\$ 269,000	\$ 23,201	\$ 315,403
2021	2.45%	19,906	278,000	19,906	317,812
2022	2.45%	16,501	281,000	16,501	314,002
2023	2.45%	13,059	170,000	13,058	196,117
2024	2.45%	10,976	169,000	10,976	190,952
2025	2.45%	8,906	174,000	8,906	191,812
2026	2.45%	6,774	178,000	6,774	191,548
2027	2.45%	4,594	186,000	4,594	195,188
2028	2.45%	<u>2,315</u>	<u>189,000</u>	<u>2,315</u>	<u>193,630</u>
Total		\$ <u>106,233</u>	\$ <u>1,894,000</u>	\$ <u>106,231</u>	\$ <u>2,106,464</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
 SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION  
 FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Capital Assets</u>			Balance <u>December 31</u>
	Balance <u>January 1</u>	<u>Additions</u>	<u>Deletions</u>	
<u>Electric Utility</u>				
Land	\$ 16,005	\$ -	\$ -	\$ 16,005
Buildings	180,168	-	-	180,168
Equipment	5,940,255	-	-	5,940,255
Distribution System	6,299,546	72,589	-	6,372,135
Substations	2,747,827	-	-	2,747,827
Trucks	51,601	17,914	-	69,515
Computer	32,347	-	-	32,347
Office Equipment and Tools	33,746	-	-	33,746
Total Electric Utility	<u>15,301,495</u>	<u>90,503</u>	<u>-</u>	<u>15,391,998</u>
<u>Water Utility</u>				
Land	82,925	-	-	82,925
Filter Building	28,648	-	-	28,648
Filter Equipment	21,527	-	-	21,527
Fluoridation System	940	-	-	940
Distribution Main and Services	128,068	295,000	-	423,068
Water Meters	485,494	-	-	485,494
Wells	5,759,542	-	-	5,759,542
Equipment	175,208	-	-	175,208
Computer	3,486	-	-	3,486
Water Tower	1,872,506	-	-	1,872,506
Trucks	62,680	-	-	62,680
Distribution System	<u>11,833,335</u>	<u>-</u>	<u>-</u>	<u>11,833,335</u>
Total Water Utility	<u>20,454,359</u>	<u>295,000</u>	<u>-</u>	<u>20,749,359</u>
Total Utilities	<u>\$ 26,394,614</u>	<u>\$ 295,000</u>	<u>\$ -</u>	<u>\$ 26,689,614</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
 SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION  
 FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Rate</u>	<u>Balance</u> <u>January 1</u>	<u>Accumulated Depreciation</u>		<u>Balance</u> <u>December 31</u>	<u>Net Capital</u> <u>Assets</u>
		<u>Additions</u>	<u>Deletions</u>		
0%	\$ -	\$ -	\$ -	\$ -	\$ 16,005
2%	94,186	3,603	-	97,789	82,379
4%	2,592,801	207,909	-	2,800,710	3,139,545
3%	3,608,485	203,908	-	3,812,393	2,559,742
4%	1,187,812	96,175	-	1,283,987	1,463,840
10%	51,601	-	-	51,601	17,914
20%	32,347	-	-	32,347	-
10%	33,746	-	-	33,746	-
	<u>7,600,978</u>	<u>511,595</u>	<u>-</u>	<u>8,112,573</u>	<u>7,279,425</u>
0%	-	-	-	-	82,925
2%	23,691	573	-	24,264	4,384
5%	21,527	-	-	21,527	-
5%	940	-	-	940	-
2%	121,923	8,461	-	130,384	292,684
5%	223,117	24,275	-	247,392	238,102
2%	1,183,646	115,191	-	1,298,837	4,460,705
5%	165,175	8,760	-	173,935	1,273
20%	3,486	-	-	3,486	-
2%	660,879	37,450	-	698,329	1,174,177
10%	52,293	6,268	-	58,561	4,119
3%	<u>4,706,364</u>	<u>390,500</u>	<u>-</u>	<u>5,096,864</u>	<u>6,736,471</u>
	<u>7,163,041</u>	<u>591,478</u>	<u>-</u>	<u>7,754,519</u>	<u>12,994,840</u>
	<u>\$ 9,755,842</u>	<u>\$ 799,387</u>	<u>\$ -</u>	<u>\$ 10,555,229</u>	<u>\$ 16,134,385</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

OPERATING REVENUES

Sales of Electricity	
Residential	\$ 1,862,114
Commercial	980,789
Large Power	1,047,577
Security Lighting	20,939
Total Sales of Electricity	<u>3,911,419</u>
Other Operating Revenues	
Penalties	96,246
Quick Start	360,000
Total Other Operating Revenues	<u>456,246</u>
Total Operating Revenues	<u>4,367,665</u>

OPERATING EXPENSES

Production Expenses	
Operation Supervision and Labor	119,709
Natural Gas	1,673
Operation Supplies and Expenses	357
Maintenance of Equipment	73,955
Maintenance of Building	491
Fuel Oil	56,928
Total Production Expenses	<u>253,113</u>
Other Power Supply Expenses	
Purchased Power	<u>2,175,784</u>
Distribution Expenses	
Operation Labor	344,603
Warehouse Heat	2,423
Light Plant Heating	3,316
Building Maintenance	580
Operation Supplies and Expenses	122,535
Truck Expenses	16,899
Tools	4,788
Total Distribution Expenses	<u>495,144</u>
Territory Acquisition Expenses	
Territory Acquisition Expense	<u>73,301</u>
Demand Side Management Expense	
Demand Side Management	<u>3,238</u>
Accounting and Collecting Expenses	
Accounting and Collecting Labor	<u>105,597</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

OPERATING EXPENSES (Cont.)

Administrative and General Expenses

Administrative and General Salaries	37,681
Office Supplies and Expenses	12,555
Computer Supplies	3,459
Professional Services	51,968
Employee Pension and Benefits	6,336
Property Insurance	34,738
Communications	6,625
Dues and Subscriptions	13,622
Advertising and Promotions	709
Training and Safety	12,323
Clothing Allowance	1,711
Street Lighting	17,795
Miscellaneous General Expenses	<u>1,373</u>
Total Administrative and General Expenses	<u>200,895</u>
Total Operation and Maintenance Expenses	3,307,072
Depreciation	<u>511,595</u>
Total Operating Expenses	<u>3,818,667</u>

OPERATING INCOME

\$ 548,998



NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
WATER UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

OPERATING REVENUES

Sales of Water	
Sale of Water	\$ <u>1,725,852</u>
Other Operating Revenues	
Penalties	26,758
Other Water Revenue	<u>421,279</u>
Total Other Operating Revenues	<u>448,037</u>
Total Operating Revenues	<u>2,173,889</u>

OPERATING EXPENSES

Production Expenses	
Operation Supervision and Labor	104,906
Natural Gas	5,548
Maintenance of Equipment	45,327
Maintenance of Building	904
Water Supply Testing	<u>114,950</u>
Total Production Expenses	<u>271,635</u>
Distribution Expenses	
Operation Labor	182,128
Warehouse Heat	2,257
Operation Supplies and Expenses	132,314
Truck Expenses	8,713
Tools	<u>6,832</u>
Total Distribution Expenses	<u>332,244</u>
Accounting and Collecting Expenses	
Accounting and Collecting Labor	105,605
Administrative and General Expenses	
Administrative and General Salaries	35,462
Office Supplies and Expenses	15,152
Professional Services	18,351
Employee Pension and Benefits	5,590
Property Insurance	29,857
Communications	5,948
Dues and Subscriptions	9,152
Training and Safety	13,808
Miscellaneous General Expenses	<u>12,281</u>
Total Administrative and General Expenses	<u>145,601</u>
Total Operation and Maintenance Expenses	855,085
Depreciation	<u>591,478</u>
Total Operating Expenses	<u>1,446,563</u>

OPERATING INCOME \$ 727,326

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
ELECTRIC AND WATER REVENUE BONDS DEBT COVERAGE  
FOR THE YEAR ENDED DECEMBER 31, 2019

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (net revenues) must exceed 110% of annual debt service. The coverage only includes revenue debt. The coverage requirement was calculated as follows:

	<u>Electric</u>	<u>Water</u>
Operating Revenues	\$ 4,367,665	\$ 2,173,889
Rental Income	-	31,670
Connection Charges	2,050	222,515
Investment Income	<u>3,600</u>	<u>7,275</u>
Total Gross Revenues	4,373,315	2,435,349
Operation and Maintenance Expenses	<u>(3,307,072)</u>	<u>(855,085)</u>
Net Revenues	<u>\$ 1,066,243</u>	<u>\$ 1,580,264</u>
Minimum required earnings per resolution:		
Annual debt service	\$ 620,326	\$ 892,052
Coverage factor	<u>110 %</u>	<u>110 %</u>
Minimum Required Net Revenues	<u>\$ 682,359</u>	<u>\$ 981,257</u>
Annual Debt Coverage	156 %	161 %

Dennis E. Oberloh, CPA  
Sara J. Oberloh, CPA



P.O. Box 186  
530 West Park Road  
Redwood Falls, MN 56283  
507-644-6400  
[www.oberlohcpa.com](http://www.oberlohcpa.com)

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of North Branch Municipal Water and Light Commission, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise North Branch Municipal Water and Light Commission, Minnesota's basic financial statements, and have issued our report thereon dated June 16, 2020.

**Internal Control Over Financial Reporting**

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Items 2019-001 and 2019-002.

### **Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

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

*Oberloh & Oberloh, Ltd.*  
Oberloh & Oberloh, Ltd.

June 16, 2020

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2019

INTERNAL CONTROL FINDINGS

Audit Finding 2019-001

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

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

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

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

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

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

Audit Finding 2019-002

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

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

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

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

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

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

Dennis E. Oberloh, CPA  
Sara J. Oberloh, CPA



P.O. Box 186  
530 West Park Road  
Redwood Falls, MN 56283  
507-644-6400  
www.oberlohcpa.com

## INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the basic financial statements of business-type activities and each major fund of North Branch Municipal Water and Light Commission, as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2020.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65 contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit included all of the listed categories except that we did not test for compliance with the provisions for tax increment financing because the City does not maintain any tax increment financing districts.

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

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

*Oberloh & Oberloh, Ltd.*  
Oberloh & Oberloh, Ltd.

June 16, 2020