

Annual Financial Report

North Branch Municipal Water and Light Commission
North Branch, Minnesota

For the Year Ended
December 31, 2020

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North Branch Municipal Water and Light Commission
North Branch, Minnesota
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INTRODUCTORY SECTION

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NORTH BRANCH, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

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North Branch Municipal Water and Light Commission
North Branch, Minnesota
Public Utilities Commission and Administration
For the Year Ended December 31, 2020

COMMISSION

<u>Name</u>	<u>Title</u>
Terry Smith	Chairperson
Tom Hals	Secretary
Nathan Keech	Vice-Chair
James Baxter	Commissioner
Peter Schaps	Commissioner

ADMINISTRATION

<u>Name</u>	<u>Title</u>
Scott Hautala	General Manager
Brenda Jepsen	Finance Manager

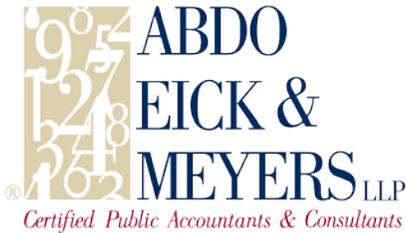
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FINANCIAL SECTION

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NORTH BRANCH, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Public Utilities 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 North Branch Municipal Water and Light Commission (the Utilities) of the City of North Branch, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities 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 Utilities 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities as of December 31, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Electric and Water enterprise funds and do not purport to, and do not present fairly the financial position of the City as of December 31, 2020, the changes in its financial position, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis Page 15 and the Schedule of Employer's Share of the Net Pension Liability and the Schedule of Employer's Contributions be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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

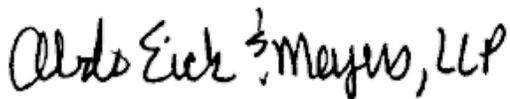
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utilities' basic financial statements. The introductory section and supplementary information is presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information 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 basic the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021 on our consideration of the Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of 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 the Utilities' internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 31, 2021

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Management's Discussion and Analysis

This section of the North Branch Municipal Water and Light Commission (the Utilities) of the City of North Branch, Minnesota annual financial report presents our analysis of the Utilities' financial performance during the fiscal year that ended December 31, 2020. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the Utilities exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$18,205,866 (net position). Net Position increased by \$2,861,240 or 18.6 percent. The increase is mainly due to capital contributions during the year totaling \$2,209,054.
- The Utilities' cash balance at the close of the current fiscal year was \$7,069,866.
- Total debt decreased \$1,093,000 during the year due to regularly schedule principal payments.

Overview of the Financial Statements

This annual report consists of three parts; Management's Discussion and Analysis, Financial Statements, and Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Utilities report information about the Utilities using accounting methods similar to those used by the private sector. These statements offer short-term and long-term financial information about its activities. The Statements of Net Position includes all of the Utilities' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Utilities' creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Utilities and assessing the liquidity and financial flexibility of the Utilities. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Utilities' operations over the past year and can be used to determine whether the Utilities' has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of this statement is to provide information about the Utilities' cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

Financial Analysis of the Utilities

Our analysis of the Utilities begins on page 20 in the Financial Section. One of the most important questions asked about the Utilities' finances is "Is the Utilities as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the Utilities' activities in a way that will help answer this question. These two statements report the net position of the Utilities and changes in the net position. You can think of the Utilities' net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Utilities' net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

Net Position. To begin our analysis, a summary of the Utilities' Statements of Net Position is presented in Table A-1. As can be seen from the Table, net position increased \$2,861,240 to \$18,205,866 during the year increasing from \$15,344,626 in 2019.

TABLE A-1
Condensed Statement of Net Position

	2020	2019	Increase (Decrease)
Assets			
Current and other	\$ 8,198,086	\$ 7,826,860	\$ 371,226
Capital	21,515,657	20,274,263	1,241,394
Total Assets	<u>29,713,743</u>	<u>28,101,123</u>	<u>1,612,620</u>
Total Deferred Outflows of Resources	<u>48,483</u>	<u>103,739</u>	<u>(55,256)</u>
Liabilities			
Current	2,206,522	2,292,647	(86,125)
Non-current	9,286,546	10,428,108	(1,141,562)
Total Liabilities	<u>11,493,068</u>	<u>12,720,755</u>	<u>(1,227,687)</u>
Total Deferred Inflows of Resources	<u>63,292</u>	<u>139,481</u>	<u>(76,189)</u>
Net Position			
Net investment in capital assets	11,684,657	9,454,002	2,230,655
Restricted for debt service	2,139,087	3,749,685	(1,610,598)
Unrestricted	<u>4,382,122</u>	<u>2,140,939</u>	<u>2,241,183</u>
Total Net Position	<u>\$ 18,205,866</u>	<u>\$ 15,344,626</u>	<u>\$ 2,861,240</u>

Statements of Revenues, Expenses and Changes in Net Position. While the Statements of Net Position shows the change in financial assets/deferred outflows and liabilities/deferred inflows, the Statements of Revenues, Expenses and Changes in Net Position, provides answers as to the nature and source of these changes. As can be seen in Table A-2, revenues in excess of expenses was the main source of the increase in net position of \$2,861,240 in fiscal 2020. A closer examination of the individual categories affecting the source of changes in net position is discussed below:

TABLE A-2
Condensed Statements of Revenues,
Expenses and Changes in Net Position

	2020	2019	Increase (Decrease)
Revenues			
Operating	\$ 6,356,640	\$ 6,541,554	\$ (184,914)
Nonoperating	118,450	121,191	(2,741)
Total Revenues	<u>6,475,090</u>	<u>6,662,745</u>	<u>(187,655)</u>
Expenses			
Operating	5,442,333	5,265,230	177,103
Nonoperating	380,571	372,037	8,534
Total Expenses	<u>5,822,904</u>	<u>5,637,267</u>	<u>185,637</u>
Income Before Contributions and Operating Transfers	652,186	1,025,478	(373,292)
Capital Contributions - Connection Fees	171,683	224,565	(52,882)
Capital Contributions of Assets	<u>2,037,371</u>	<u>-</u>	<u>2,037,371</u>
Change in Net Position	2,861,240	1,250,043	1,611,197
Net Position, January 1	<u>15,344,626</u>	<u>14,094,583</u>	<u>1,250,043</u>
Net Position, December 31	<u><u>\$ 18,205,866</u></u>	<u><u>\$ 15,344,626</u></u>	<u><u>\$ 2,861,240</u></u>

Capital Assets and Debt Administration

Capital Assets. The Utilities' investment in capital assets for its business-type activities as of December 31, 2020 amounts to \$21,515,657 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment. A table summarizing the balances by fund follows:

	2020	2019	Increase (Decrease)
Land	\$ 98,930	\$ 98,930	\$ -
Buildings	80,295	1,363,135	(1,282,840)
Machinery and Equipment	3,279,633	3,298,761	(19,128)
Infrastructure	18,040,125	15,513,437	2,526,688
Construction in Progress	<u>16,674</u>	<u>-</u>	<u>16,674</u>
Total	<u><u>\$ 21,515,657</u></u>	<u><u>\$ 20,274,263</u></u>	<u><u>\$ 1,241,394</u></u>

The total increase in the Utilities' investment in capital assets for the current fiscal year was 6.1 percent.

Capital asset events during the current fiscal year included the following:

Electrical

- Purchase of 2014 Digger Derrick Truck
- Purchase of Single Reel Trailer
- Complete City LED Streetlight conversion
- Public Electric Vehicle chargers
- New Developments - Luchts Crossing 2 and 3, TownsEdge 2, State 95/Hemingway Roundabout

Water

- Well 6 Pump Replacement
- Water Treatment Plant # 2 Controls Upgrade
- Donated Water Infrastructure - Wild Ridge, Schoolside Village, Flink Ave, Wood Duck Ponds, and Luchts Crossing.

Additional information on the Utilities’ capital assets can be found in Note 2B starting on page 32 of this report.

Long-term Debt. At year end, the Utilities had \$9,831,000 in long-term debt which decreased from \$1,093,000 in fiscal 2019. The decrease is mainly due to regularly scheduled principal payments. More detailed information about the Utilities’ long-term liabilities can be found in Note 2C starting on page 33 and below:

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Revenue Bonds	<u>\$ 9,831,000</u>	<u>\$ 10,924,000</u>	<u>\$ (1,093,000)</u>

Economic Factors and Next Year’s Budgets and Rates

The increased emphasis toward renewable energy and away from coal-based energy, the challenge to reduce energy and water consumption while still maintaining the existing infrastructure and the smart grid developments are all factors that point to potential increased cost in the coming years. It is the Utilities’ goal to not have to rely on increasing rates to meet those increases but continue to look for ways to increase efficiencies and reduce costs, while providing excellent customer service. North Branch Municipal Water and Light Commission’s mission is to provide safe, cost-effective, reliable, quality utilities in an environmentally and financially responsible manner. We have met that mission in our customer service delivery and our successful financial results and will continue to strive to meet that mission in the future.

Contacting the Utilities Finance Manager

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Utilities’ finances and to demonstrate the Utilities’ accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Brenda Jepsen, North Branch Municipal Water and Light Commission, 6388 Maple Street, North Branch, Minnesota 55056.

FINANCIAL STATEMENTS

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NORTH BRANCH, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

North Branch Municipal Water and Light Commission

North Branch, Minnesota

Statement of Net Position

December 31, 2020

	Electric	Water	Total
Assets			
Current Assets			
Cash and temporary investments	\$ 2,496,447	\$ 2,347,753	\$ 4,844,200
Accounts receivable, net of allowance	612,496	157,685	770,181
Due from other City funds	63,053	26,993	90,046
Inventories	236,691	12,543	249,234
Prepaid expenses	11,464	7,295	18,759
Total Current Assets	3,420,151	2,552,269	5,972,420
Capital Assets			
Land	16,005	82,925	98,930
Buildings	180,168	28,648	208,816
Equipment and machinery	6,434,174	262,902	6,697,076
Infrastructure	9,119,961	22,433,192	31,553,153
Construction in progress	4,658	12,016	16,674
Capital Assets, Cost	15,754,966	22,819,683	38,574,649
Less Accumulated Depreciation	(8,643,657)	(8,415,335)	(17,058,992)
Total Capital Assets, Net	7,111,309	14,404,348	21,515,657
Other Assets			
Restricted cash	1,498,218	727,448	2,225,666
Total Assets	12,029,678	17,684,065	29,713,743
Deferred Outflows of Resources			
Deferred pension resources	33,101	15,382	48,483

The notes to the financial statements are an integral part of this statement.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Statement of Net Position (Continued)
December 31, 2020

	Electric	Water	Total
Current Liabilities			
Accounts payable	\$ 197,088	\$ 21,693	\$ 218,781
Accrued interest payable	20,721	65,858	86,579
Due to other City funds	377,353	5,048	382,401
Customer deposits payable	103,484	30,165	133,649
Rate stabilization	147,880	-	147,880
Compensated absences - current portion	58,438	34,794	93,232
Bonds payable - current portion	413,000	731,000	1,144,000
Total Current Liabilities	1,317,964	888,558	2,206,522
Non-current Liabilities			
Bonds payable, net - less current portion	3,773,000	4,914,000	8,687,000
Net pension liability	428,050	171,496	599,546
Total Non-current Liabilities	4,201,050	5,085,496	9,286,546
Total Liabilities	5,519,014	5,974,054	11,493,068
Deferred Inflows of Resources			
Deferred pension resources	43,202	20,090	63,292
Net Position			
Net investment in capital assets	2,925,309	8,759,348	11,684,657
Restricted for debt service	1,477,497	661,590	2,139,087
Unrestricted	2,097,757	2,284,365	4,382,122
Total Net Position	\$ 6,500,563	\$ 11,705,303	\$ 18,205,866

The notes to the financial statements are an integral part of this statement.

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North Branch Municipal Water and Light Commission
North Branch, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2020

	Electric	Water	Total
Operating Revenues			
Charges for services	\$ 4,086,587	\$ 1,891,875	\$ 5,978,462
Quick start power	360,000	-	360,000
Connection maintenance	100	575	675
Customer penalties	13,614	3,889	17,503
Total Operating Revenues	<u>4,460,301</u>	<u>1,896,339</u>	<u>6,356,640</u>
Operating Expenses			
Purchased power	2,204,209	-	2,204,209
Production	256,484	203,467	459,951
Distribution	401,327	178,306	579,633
Depreciation	531,082	660,815	1,191,897
Customer accounts	165,719	4,877	170,596
General and administrative	476,068	359,979	836,047
Total Operating Expenses	<u>4,034,889</u>	<u>1,407,444</u>	<u>5,442,333</u>
Operating Income (Loss)	<u>425,412</u>	<u>488,895</u>	<u>914,307</u>
Nonoperating Revenues (Expenses)			
Interest income	1,098	5,701	6,799
Miscellaneous revenue	15,724	95,927	111,651
Interest expense and other	(210,849)	(169,722)	(380,571)
Total Nonoperating Revenues	<u>(194,027)</u>	<u>(68,094)</u>	<u>(262,121)</u>
Income (loss) before Contributions and Transfers	<u>231,385</u>	<u>420,801</u>	<u>652,186</u>
Capital Contributions -			
Connection Fees	17,299	154,384	171,683
Capital Contributions of Assets	19,000	2,018,371	2,037,371
Total Contributions and Transfers	<u>36,299</u>	<u>2,172,755</u>	<u>2,209,054</u>
Change in Net Position	267,684	2,593,556	2,861,240
Net Position, January 1	<u>6,232,879</u>	<u>9,111,747</u>	<u>15,344,626</u>
Net Position, December 31	<u>\$ 6,500,563</u>	<u>\$ 11,705,303</u>	<u>\$ 18,205,866</u>

The notes to the financial statements are an integral part of this statement.

North Branch Municipal Water and Light Commission

North Branch, Minnesota

Statement of Cash Flows

For the Year Ended December 31, 2020

	Electric	Water	Total
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 4,352,387	\$ 1,895,225	\$ 6,247,612
Other operating cash receipts	15,724	95,927	111,651
Payments to suppliers	(2,690,650)	(467,532)	(3,158,182)
Payments to employees	(650,352)	(365,946)	(1,016,298)
Net Cash Provided by Operating Activities	1,027,109	1,157,674	2,184,783
Cash Flows from Noncapital Financing Activities			
Increase/decrease in interfund loans	(57,061)	57,061	-
Decrease in due from other City funds	(34,581)	(19,148)	(53,729)
Increase in due to other City funds	(2,142)	460	(1,682)
Net Cash Provided (Used) by Noncapital Financing Activities	(93,784)	38,373	(55,411)
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(362,967)	(51,953)	(414,920)
Proceeds from connection fees	17,299	154,384	171,683
Principal payments on bonds	(379,000)	(714,000)	(1,093,000)
Withdrawal from escrow fund	84,903	-	84,903
Payment to refunded bond escrow agent	(84,903)	-	(84,903)
Interest paid on bonds	(131,360)	(178,052)	(309,412)
Net Cash Used by Capital and Related Financing Activities	(856,028)	(789,621)	(1,645,649)
Cash Flows from Investing Activities			
Interest on investments	1,098	5,701	6,799
Net Increase in Cash and Cash Equivalents	78,395	412,127	490,522
Cash and Cash Equivalents, January 1	3,916,270	2,663,074	6,579,344
Cash and Cash Equivalents, December 31	\$ 3,994,665	\$ 3,075,201	\$ 7,069,866
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and temporary investments	\$ 2,496,447	\$ 2,347,753	\$ 4,844,200
Restricted cash	1,498,218	727,448	2,225,666
Total Cash and Cash Equivalents	\$ 3,994,665	\$ 3,075,201	\$ 7,069,866

The notes to the financial statements are an integral part of this statement.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Statement of Cash Flows (Continued)
For the Year Ended December 31, 2020

	Electric	Water	Total
Reconciliation of Operating Income (Loss) to			
Net Cash Provided by Operating Activities			
Operating income (loss)	\$ 425,412	\$ 488,895	\$ 914,307
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Other revenue related to operations	15,724	95,927	111,651
Bad debt expense	165,719	4,877	170,596
Depreciation	531,082	660,815	1,191,897
(Increase) decrease in assets/deferred outflows:			
Accounts receivable	(76,850)	(3,203)	(80,053)
Inventories	31,111	6,384	37,495
Prepaid expenses	(7,714)	(4,360)	(12,074)
Deferred pension resources	(33,101)	22,454	(10,647)
Increase (decrease) in liabilities/deferred inflows:			
Accounts payable	(6,851)	(4,798)	(11,649)
Compensated absences payable	(7,725)	(16,289)	(24,014)
Customer deposits payable	(31,064)	2,089	(28,975)
Net pension liability	61,346	(58,908)	2,438
Deferred pension resources	(39,980)	(36,209)	(76,189)
	<u>\$ 1,027,109</u>	<u>\$ 1,157,674</u>	<u>\$ 2,184,783</u>
Net Cash Provided by Operating Activities			
Noncash Capital and Related Financing Activities			
Donated Capital Assets	\$ 19,000	\$ -	\$ 19,000
Contribution of Capital Assets	\$ -	\$ 2,018,371	\$ 2,018,371
	<u>\$ -</u>	<u>\$ 2,018,371</u>	<u>\$ 2,018,371</u>

The notes to the financial statements are an integral part of this statement.

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North Branch Municipal Water and Light Commission
North Branch, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 1: Summary of Significant Accounting Policies

A. Nature of the Business

The North Branch Municipal Water and Light Commission (the Utilities) is a municipal utility established by action of the City of North Branch (the City) pursuant to Minnesota statute 412.321 and consequently its Electric and Water funds are a discretely presented component unit of the City. The Public Utilities Commission (the Commission) members are elected by the North Branch City Council. The Commission determines all matters of policy. The Commission appoints personnel responsible for the proper administration of all affairs relating to the Utilities. The Utilities distributes electricity and water to the residents of North Branch Minnesota.

The Utilities 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 Utilities are such that exclusion would cause the Utilities' 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. There are no component units.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Utilities are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistently with legal and managerial requirements.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Utilities receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Utilities must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Utilities on a reimbursement basis.

Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund type:

Enterprise funds account for those operations that are financed and operated in a manner similar to private business or where the Utilities has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The Utilities reports the following major proprietary funds:

The *Electric fund* accounts for the electric distribution operations.

The *Water fund* accounts for the water distribution operations.

North Branch Municipal Water and Light Commission
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Notes to the Financial Statements
December 31, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

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 enterprise funds are charges to customers for sales and service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Cash Equivalents

The Utilities' 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. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statements of cash flows.

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 Utilities may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

North Branch Municipal Water and Light Commission
 North Branch, Minnesota
 Notes to the Financial Statements
 December 31, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Restricted Assets

The amounts in the restricted cash account are set aside in accordance with the issuing resolution for specific bond issues. They will be used for future debt service.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. The Utilities has established a reserve for uncollectible accounts which is adjusted annually based on the receivable activity. No substantial losses from present receivable balances are anticipated. The uncollectible account balances at December 31, 2020 is \$56,787 for the electric fund.

Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivables/payables” (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”.

Inventories and Prepaid items

Inventories of materials and supplies are recorded at average cost, using the first-in, first out (FIFO) method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets are stated at cost. Capital assets are defined by the Utilities as assets with an initial individual cost of more than \$10,000. Expenditures for maintenance and repairs are charged to operations and expenditures that extend the useful life of the asset are capitalized and depreciated. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and any gain or loss on disposition is included as non-operating revenues or expenses. Donated capital assets are recorded at acquisition value at the date of donation.

Major expenditures for improvements or capital asset projects are capitalized as projects are constructed.

The Utilities follow the policy of providing depreciation on the straight-line method over the estimated useful lives of the assets, which are as follows:

<u>Description</u>	<u>Useful Lives in Years</u>
Buildings	10
Infrastructure	25 - 50
Machine and Equipment	10 - 20

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Utilities has one item, deferred pension resources, which qualify for reporting in this category. Deferred pension resources result from actuarial calculation and current year pension contributions subsequent to the measurement date.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

Paid Time Off Benefits: Paid Time Off (PTO): PTO can be accumulated up to a maximum of 400 hours at year-end. Anything over 400 hours, up to 80 hours or up to 40%, can be paid to the employee upon request one time per year. Upon termination or retirement employees will have 100% of unused PTO converted to cash.

The liability for PTO is reported as a liability in the respective funds at year end.

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 except that PERA's fiscal year end is June 30. 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.

The total pension expense for all plans recognized by the Utilities for the year ended December 31, 2020 was \$34,585. The components of pension expense are noted in the plan summaries in Note 3.

Long-term Obligations

Long-term debt is reflected as a liability in the fund issuing the obligation. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as an expense in the period incurred.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Utilities has only one type of item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statement of net position and results from actuarial calculations.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is 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 net position that do not meet the definition of "restricted" or "net investment in capital assets".

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

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 2: Detailed Notes on All Funds

A. Deposits and Investments

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

Minnesota statutes require that all Utilities deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

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

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

At December 31, 2020, the Utilities' carrying amount of deposits was \$7,069,066 and the bank balance was \$7,172,664. Of the bank balance \$750,000 was covered by federal depository insurance, and the remaining balance was covered by collateral held by the pledging financial institution's agent in the Utilities' name.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 2: Detailed Notes on All Funds (Continued)

A reconciliation of cash and temporary investments as shown in the financial statements for the Utilities follows:

	2020
Deposits	\$ 7,069,066
Cash on Hand	800
Total	\$ 7,069,866
Cash and Temporary Investments	
Unrestricted	\$ 4,844,200
Restricted	2,225,666
Total	\$ 7,069,866

B. Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follows:

	Beginning Balance	Reclassification	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated					
Land	\$ 98,930	\$ -	\$ -	\$ -	\$ 98,930
Construction in progress	-	-	16,674	-	16,674
Total Capital Assets not being Depreciated	98,930	-	16,674	-	115,604
Capital Assets being Depreciated					
Buildings	2,183,516	(1,974,700)	-	-	208,816
Machinery and equipment	6,722,068	(383,301)	358,309	-	6,697,076
Infrastructure	27,136,844	2,358,001	2,058,308	-	31,553,153
Total Capital Assets being Depreciated	36,042,428	-	2,416,617	-	38,459,045
Less Accumulated Depreciation for					
Buildings	(820,381)	698,328	(6,468)	-	(128,521)
Machinery and equipment	(3,423,307)	247,395	(241,531)	-	(3,417,443)
Infrastructure	(11,623,407)	(945,723)	(943,898)	-	(13,513,028)
Total Accumulated Depreciation	(15,867,095)	-	(1,191,897)	-	(17,058,992)
Total Capital Assets being Depreciated, Net	20,175,333	-	1,224,720	-	21,400,053
Business-type Activities Capital Assets, Net	\$ 20,274,263	\$ -	\$ 1,241,394	\$ -	\$ 21,515,657

North Branch Municipal Water and Light Commission
 North Branch, Minnesota
 Notes to the Financial Statements
 December 31, 2020

Note 2: Detailed Notes on All Funds (Continued)

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

	2020
Business-type Activities	
Electric	\$ 531,082
Water	660,815
 Total Depreciation Expense - Business-type Activities	 \$ 1,191,897

C. Long-term Debt

Revenue Bonds

The current electrical revenue bonds were issued to pay for new diesel generators at the Power Plant and other infrastructure and are to be repaid from future revenue pledged from the Electric fund. They will be retired from new revenues of the fund. The current water revenue bonds were issued to pay for the new water infrastructure including Water Treatment Plant #2, expansion of Water Treatment Plant #1, and Wells #4 and #5 with necessary infrastructure. They will be retired from net revenues of the fund.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End	
Electric Revenue Refunding Bonds - 2016A	\$ 2,662,000	2.45%	%	12/28/2016	11/1/2028	\$ 1,735,000
Electric Revenue Refunding Bonds - 2017D	2,561,000	3.30%		12/27/2017	11/1/2035	2,451,000
Water Revenue Refunding Bonds - 2017A	8,024,000	2.80%		2/24/2017	8/1/2033	5,645,000
 Total Revenue Bonds					 \$ 9,831,000	

The annual debt service requirements to maturity for the revenue bonds are as follows:

Year Ending December 31,	Principal	Interest	Total
2021	\$ 1,144,000	\$ 282,386	\$ 1,426,386
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	921,000	161,202	1,082,202
2026 - 2030	3,084,000	448,807	3,532,807
2031 - 2035	1,487,000	128,450	1,615,450
 Total	 \$ 9,831,000	\$ 1,677,268	\$ 11,508,268

In 2020, annual principal and interest payment on the bonds required about 11.4% percent of revenues from the Electric fund. The principal and interest paid and total customer revenues for the Electric fund were \$510,360.

In 2020, annual principal and interest payment on the bonds required about 47.0% percent of revenues from the Water fund. The principal and interest paid and total customer revenues for the Water fund were \$892,052.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 2: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
Bonds Payable					
General obligation revenue bonds	\$ 10,924,000	\$ -	\$ (1,093,000)	\$ 9,831,000	\$ 1,144,000
Compensated Absences Payable	<u>117,246</u>	<u>80,443</u>	<u>(104,457)</u>	<u>93,232</u>	<u>93,232</u>
Business-type Activity Long-term Liabilities	<u>\$ 11,041,246</u>	<u>\$ 80,443</u>	<u>\$ (1,197,457)</u>	<u>\$ 9,924,232</u>	<u>\$ 1,237,232</u>

D. Interfund Receivables, Payables and Transfers

Interfunds

The composition of interfund balances at year end is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Electric	City	\$ 49,515	December billings and other assessed
Electric	City	13,539	Miscellaneous
Total Electric Fund Receivable From City		<u>63,054</u>	
Water	City	<u>26,992</u>	Irrigation and Water
Total Receivable From City		<u>\$ 90,046</u>	
City	Electric	\$ 4,332	Miscellaneous
City	Electric	2,649	Billed street lights on behalf of City
City	Electric	19,523	Billed franchise fees on behalf of City
City	Electric	43,219	Billed stormwater on behalf of City
City	Electric	<u>312,678</u>	Billed sewer on behalf of City
Total Payable to City		<u>\$ 382,401</u>	

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Defined Benefit Pension Plans - Statewide

A. Plan Description

The Utilities 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.

General Employees Retirement Plan

All full-time and certain part-time employees of the Utilities 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.

General Employee 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 Coordinated members is 1.2 percent of average salary for each of the first 10 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 for average salary for all years 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.

Benefit increases are provided to benefit recipients each January. Beginning in 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with 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 the 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 the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the Utilities was required to contribute 7.50 percent for Coordinated Plan members. The Utilities contributions to the General Employees Fund for the years ending December 31, 2020, 2019 and 2018 were \$49,572, \$59,227, and \$55,081, respectively. The Utilities contributions were equal to the required contributions for each year as set by state statute.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2020, the Utilities reported a liability of \$599,546 for its proportionate share of the General Employees Fund's net pension liability. The Utilities net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. 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 Utilities totaled \$18,473. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities proportionate share of the net pension liability was based on the Utilities contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020 relative to the total employer contributions received from all of PERA's participating employers. The Utilities proportionate share was 0.0100 percent which was a decrease of 0.0008 percent from its proportion measured as of June 30, 2019.

Utilities' Proportionate Share of the Net Pension Liability	\$599,546
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Utilities	<u>18,473</u>
Total	<u><u>\$ 618,019</u></u>

For the year ended December 31, 2020, the Utilities recognized pension expense of \$32,977 for its proportionate share of the General Employees Plan's pension expense. In addition, the Utilities recognized an additional \$1,608 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.

At December 31, 2020, the Utilities 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	\$ 5,951	\$ 2,693
Changes in Actuarial Assumptions	177	23,375
Net Difference between Projected and Actual Earnings on Plan Investments	8,676	-
Changes in Proportion	7,942	37,224
Contributions Paid to PERA Subsequent to the Measurement Date	<u>25,737</u>	<u>-</u>
Total	<u><u>\$ 48,483</u></u>	<u><u>\$ 63,292</u></u>

North Branch Municipal Water and Light Commission
 North Branch, Minnesota
 Notes to the Financial Statements
 December 31, 2020

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

The \$25,737 reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2021	\$ (42,049)
2022	(12,045)
2023	(983)
2024	14,531

E. Actuarial Assumptions

The total pension liability in the June 30, 2020 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 disabilitants 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 after retirement for retirees are assumed to be 1.25 percent per year for General Employees Plan.

Actuarial assumptions used in the June 30, 2020 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 assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020. The recommended assumptions for that plan were adopted by the Board and will be effective with the July 1, 2021 actuarial valuations if approved by the Legislature.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

The following changes in actuarial assumptions and plan provisions occurred in 2020:

General Employees Fund

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

North Branch Municipal Water and Light Commission
 North Branch, Minnesota
 Notes to the Financial Statements
 December 31, 2020

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

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 geometric 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 %
Alternative Assets (Private Markets)	25.0	5.90
Bonds (Fixed Income)	20.0	0.75
International Stocks	17.5	5.30
Cash	<u>2.0</u>	-
Total	<u><u>100.0 %</u></u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the Utilities 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 Utilities proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1 Percent Decrease (6.50%)</u>	<u>Current (7.50%)</u>	<u>1 Percent Increase (8.50%)</u>
General Employees Fund	\$ 960,864	\$ 599,546	\$ 301,487

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.

North Branch Municipal Water and Light Commission
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Notes to the Financial Statements
December 31, 2020

Note 4: Other

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 1998 electricity utility earnings. The reserve will be used to offset future rate increases, maintain income stability in future periods, and reduce temporary cash investments. Transfers from rate stabilization reserve to operations will be made in future years as needed to maintain financial stability. In addition to the electric rate stabilization fund, SMMPA also maintains a rate stabilization fund for its members that provides assurance that actual wholesale power rates will not significantly vary from budgeted rates.

Note 5: COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (“COVID-19”) and the risks to the international community as virus spreads globally. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. In response to the pandemic, the State of Minnesota has issued stay-at-home orders and other measures aimed at slowing the spread of the coronavirus.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Due to the rapid development and fluidity of this situation, the Utilities cannot determine the ultimate impact that the COVID-19 pandemic will have on its financial condition, liquidity, and future revenue collection, and therefore any prediction as to the ultimate impact on the Utilities’ financial condition, liquidity, and future results of its revenue collections is uncertain.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NORTH BRANCH, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2020

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

Fiscal Year Ending	Utilities Proportion of the Net Pension Liability	Utilities Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the Utilities (b)	Total (a+b)	Utilities Covered Payroll (c)	Utilities Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/20	0.0100 %	\$ 599,546	\$ 18,476	\$ 618,022	\$ 712,633	84.1 %	79.0 %
06/30/19	0.0108	597,108	18,499	615,607	763,640	78.2	80.2
06/30/18	0.0107	593,592	19,381	612,973	717,240	82.8	79.5
06/30/17	0.0104	663,929	8,380	672,309	672,507	98.7	75.9
06/30/16	0.0101	820,070	-	820,070	627,360	130.7	68.9
06/30/15	0.0104	538,982	-	538,982	621,455	86.7	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Utilities Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/20	\$ 49,572	\$ 49,572	\$ -	\$ 660,960	7.5 %
12/31/19	59,227	59,227	-	789,693	7.5
12/31/18	55,081	55,081	-	734,413	7.5
12/31/17	52,561	52,561	-	700,813	7.5
12/31/16	49,098	49,098	-	654,640	7.5
12/31/15	45,720	45,720	-	609,600	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2020

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality 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.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2020

Notes to the Required Supplementary Information - General Employee Retirement Fund (Continued)

Changes in Plan Provisions

2020 - Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 - 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 - 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 not 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 - 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.

2016 - No changes noted

2015 - 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.

SUPPLEMENTARY INFORMATION

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NORTH BRANCH, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses
For the Year Ended December 31, 2020

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Operating Revenues			
Charges for services			
Residential	\$ 2,126,499	\$ -	\$ 2,126,499
Commercial	913,582	-	913,582
Large power	1,025,495	-	1,025,495
Water	-	1,891,875	1,891,875
Security lighting	21,011	-	21,011
Quick start power	360,000	-	360,000
Connection maintenance	100	575	675
Customer penalties	13,614	3,889	17,503
Total operating revenues	<u>4,460,301</u>	<u>1,896,339</u>	<u>6,356,640</u>
Operating Expenses			
Purchased power	<u>2,204,209</u>	<u>-</u>	<u>2,204,209</u>
Production			
Supervision and labor	126,172	92,512	218,684
Supplies	50,396	32,826	83,222
Utility expenses	2,076	63,580	65,656
Maintenance	18,066	14,549	32,615
Insurance	59,774	-	59,774
Total production	<u>256,484</u>	<u>203,467</u>	<u>459,951</u>
Transmission and distribution			
Supervision and labor	357,986	42,161	400,147
Supplies	24,993	75,017	100,010
Utility expenses	7,416	19,592	27,008
Maintenance	95	41,536	41,631
Transportation	10,837	-	10,837
Total transmission and distribution	<u>401,327</u>	<u>178,306</u>	<u>579,633</u>
Depreciation	<u>531,082</u>	<u>660,815</u>	<u>1,191,897</u>
Customer accounts expense			
Bad debts	<u>165,719</u>	<u>4,877</u>	<u>170,596</u>

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Supplementary Information
Schedule of Operating Revenues and Expenses (Continued)
For the Year Ended December 31, 2020

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Operating Expenses (Continued)			
General and administrative			
Salaries and benefits	\$ 144,729	\$ 141,742	\$ 286,471
Supplies	43,132	23,892	67,024
Utility expense	2,005	579	2,584
Consulting fees	160,313	131,267	291,580
Insurance	25,627	34,887	60,514
Communications	5,773	5,036	10,809
Dues and staff development	17,477	4,333	21,810
Advertising	349	373	722
Territory acquisition	3,152	-	3,152
Miscellaneous	73,511	17,870	91,381
Total general and administrative	<u>476,068</u>	<u>359,979</u>	<u>836,047</u>
Total Operating Expenses	<u>4,034,889</u>	<u>1,407,444</u>	<u>5,442,333</u>
Operating Income (Loss)	<u>425,412</u>	<u>488,895</u>	<u>914,307</u>
Nonoperating Revenues (Expenses)			
Interest income	1,098	5,701	6,799
Miscellaneous revenue	15,724	95,927	111,651
Interest expense and other	<u>(210,849)</u>	<u>(169,722)</u>	<u>(380,571)</u>
Total Nonoperating Revenues	<u>(194,027)</u>	<u>(68,094)</u>	<u>(262,121)</u>
Income before Contributions and Transfers	<u>231,385</u>	<u>420,801</u>	<u>652,186</u>
Capital Contributions			
Connection Fees	17,299	154,384	171,683
Capital Contributions of Assets	19,000	2,018,371	2,037,371
Total Contributions and Transfers	<u>36,299</u>	<u>2,172,755</u>	<u>2,209,054</u>
Change in Net Position	267,684	2,593,556	2,861,240
Net Position, January 1	<u>6,232,879</u>	<u>9,111,747</u>	<u>15,344,626</u>
Net Position, December 31	<u>\$ 6,500,563</u>	<u>\$ 11,705,303</u>	<u>\$ 18,205,866</u>

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OTHER REPORT

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION
NORTH BRANCH, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Public Utilities 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, the financial statements of the North Branch Municipal Water and Light Commission (the Utilities) of the City of North Branch, Minnesota (the City) as of and for the year ended December 31, 2020, and the related notes to the financial statements which collectively comprises the Utilities basic financial statements, and have issued our report thereon dated March 31, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that the Utilities failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the Schedule of Findings and Responses as item 2020-007. 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 Utilities' noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The Utilities' responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of those charged with governance and management of the Public Utilities Commission, and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 31, 2021

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

Honorable Mayor and Utilities Commission
North Branch Municipal Water and Light Commission, 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 North Branch Municipal Water and Light Commission (the Utilities) of the City of North Branch, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements and have issued our report thereon dated March 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utilities' internal control over financial reporting (internal control) as a basis for designing 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 Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 on a timely basis. A material weakness is a deficiency, or a 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. We consider the deficiency described in the accompanying Schedule of Findings and responses as item 2020-004, 2020-005 and 2020-006 to be a material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, and 2020-003 to be a significant deficiencies.

Compliance and Other Matters

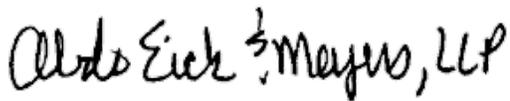
As part of obtaining reasonable assurance about whether the Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 one instance of noncompliance as item 2020-007 and identified no other matters that are required to be reported under *Government Auditing Standards*.

The Utilities' Responses to the Findings

The Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 31, 2021

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North Branch Municipal Water and Light Commission
North Branch, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2020

<u>Finding</u>	<u>Description</u>
2020-001	Preparation of Financial Statements
<i>Condition:</i>	As auditors, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the Utilities Commission as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over the reliability of financial records and reporting.
<i>Cause:</i>	From a practical standpoint, we both prepare your statements and determine the fairness of that presentation at the same time in connection with our audit. This is not unusual for us to do with organizations of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting. We have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.
<i>Recommendation:</i>	Under these circumstances, the most effective controls lie in management's knowledge of the Utilities' financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situations listed above, we would offer the following specific recommendations: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your accounting information from your accounting software to the amounts reported in the financial statements.

Management Response:

Unless the governing body has either employed a Director of Finance who by training has achieved a Certified Public Accounting or has multiple years of government accounting, especially in the current organization, it is common practice for the financial auditor to prepare the Financial Statements with information and review performed by management staff. Management asked questions during the audit process, including after the draft audit report to ensure management had communicated the Utility's financial information to the audit team to properly prepare the audited financial statements.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2020

<u>Finding</u>	<u>Description</u>
2020-002	Limited Segregation of Duties
<i>Condition:</i>	During our audit we reviewed procedures over cash disbursements, payroll, utility billing, financial reporting, and capital assets and found the Utilities to have limited segregation of duties over those transaction cycles.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Cause:</i>	As a result of the limited number of staff, in the disbursement cycle, the Finance Manager has access to checks, ability to posts to the general ledger, and prepares bank reconciliations. In the payroll cycle, the Finance Manager has control over the checks, sets up employee records, posts to the general ledger. In the utility billing cycle, the Utilities Commission approves rates but the Finance Manager reconciles the amounts billed and collected in the system and posts to the general ledger. Although the utility billing clerk is involved in the utility billing process, the Finance Manager has the access to all four categories of control. In the financial reporting and capital asset transaction cycles, the Finance Manager performs all of the duties with assistance from the General Manager.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.
<i>Recommendation:</i>	While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend that the Utilities evaluate the current procedures and segregate duties where possible and implement any compensating controls. We are aware some compensating controls are in place; however, it is important that the Commission is aware of this condition and monitor all financial information.

Management Response:

Additional process controls have been implemented since the fourth quarter 2020 and continue as improved practices. These process controls consist of the following:

- Every non-inventory purchase above \$250 is provided by either verbal or written General Manager approval.
- Employees submit their timecards to the General Manager for approval, the General Manager sends them to the Finance manager for processing. General Manager approves timecards and also reviews post check processing and payroll reports.
- Every invoice is initialed for payment approval by the General Manager before the Finance Manager processes for payment.
- Each check batch is provided to the General Manager for review/approval before payment is made.
- The Utility Billing Clerk posts all utility billing related payments to the Utility Billing application, which then interfaces to the General Ledger. The Finance Manager prepared journal entries for non-utility billing payments received, and reconciles the general ledger accounts.

Management will continue to review where duties can have further segregation including purchasing and inventory management.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2020

<u>Finding</u>	<u>Description</u>
2020-003	Utility Billing
<i>Condition:</i>	During our audit, we noted some processing inconsistencies related to utility billing receivables, miscellaneous receivable and payable general ledger accounts associated with utility billing, cash receipts, and recording of transactions. We noted adjustments necessary to the accounting software to properly account for year-end balances.
<i>Criteria:</i>	From an operational standpoint, accurately and timely processing of utility bills is essential to the operations of the Utilities.
<i>Cause:</i>	It appears that the record keeping and recording processes are not complete causing general ledger differences.
<i>Effect:</i>	The Utilities has unreconciled accounts and therefore inaccurate reporting.
<i>Recommendation:</i>	We recommend that the Utilities review the utility billing process to ensure all activity is reconciled to the general ledger and agrees to supporting documentation.

Management Response:

Routine customer utility payments (base and usage) have very little to no issues. The non-utility customer payments (deposits, late fees, penalties, reconnection fees) have been reviewed and an improved documentation process has been in place since the fourth quarter 2020 to record and track payments.

In addition, non-utility payments such as SMMPA Conservation Improvement Program (CIP) reimbursement unreconciled differences have greatly decreased as management has changed the process to only pay the local NBWL customer when we have received the SMMPA rebate.

As the Utility also is the billing agent for the City for sewer and urban stormwater, these accounts also are kept up to date.

Finally, other non-utility billings such as developer paid fees, city obtained permit fees, water meter fees, and utility damage payments tracking process are also under additional scrutiny to reduce account differences.

In addition, the property tax certification process had several reviews before requesting approval from the City.

The reconciling process has increased in frequency from once/month to once/week to allow for more timely corrections for reconciliation issues.

Management will continue to review processes to reduce/eliminate unreconciled accounts.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2020

<u>Finding</u>	<u>Description</u>
2020-004	Quarterly Reports and Monitoring
<i>Condition:</i>	During our audit, we noted that Utilities Commission is not consistently receiving financial reports.
<i>Criteria:</i>	The Utilities Commission is ultimately responsible for overseeing financial reporting. Reviewing accounting reports, including budget verse actual reports, and cash balances for all funds is important in making all financial decisions. It is also important from a monitoring standpoint since there is limited segregation of duties.
<i>Cause:</i>	The financial reports did not appear to be included in the Utilities Commission packet each month.
<i>Effect:</i>	Without formal approval, the Utilities Commission appears to have not been provided with sufficient information throughout the year to analyze and monitor activity.
<i>Recommendation:</i>	We recommend that Utilities Commission formally receive and closely review monthly or quarterly reports, including budget verse actual as well as cash balances for each fund compared to the previous quarter.

Management Response:

Management recognized this as a deficiency and starting in the fourth quarter 2020 improved financial reporting has been provided to the Commission with both monthly financial reporting for incomes and expenses and a review of cash balances and bond payoff strategies conducted once in the fourth quarter 2020.

During 2021, a monthly summary for financial income reporting will be provided to the Commission for review as well as a detailed line-item income report at the end of each quarter. Cash balances will be reviewed at least semi-annually or when a decision is being requested for cash management or an inter-department transfer.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2020

<u>Finding</u>	<u>Description</u>
2020-005	Cash Reconciliation
<i>Condition:</i>	During our audit, we noted differences in the year end general ledger cash balances in comparison to the bank account balances. It was also noted that bank reconciliations were not done timely.
<i>Criteria:</i>	Year-end cash balances do not reconcile to the general ledger. Amounts reported in the Utilities' accounting software need to agree to the underlying supporting documentation.
<i>Cause:</i>	Bank reconciliations were not completed timely and the process for recording receipts, payments and reconciling them to the general ledger was not complete.
<i>Effect:</i>	This indicates that misstatements may occur or exist that will not be detected by the Utilities' system of internal controls.
<i>Recommendation:</i>	We recommend that the Utilities review the cash reconciliation process to ensure reconciliations are done timely and all activity is accounted for properly.

Management Response:

The general ledger accounts have several artifacts that cannot be tied out due to lack of documentation. These GL accounts were adjusted at year-end with the best information available.

The bank statement reconciliation was problematic in early 2020, with receipts not being well maintained or documented. This process has since been changed. Cash will be reconciled on a monthly basis with a report to the General Manager outlining additional challenges and efficiencies. This practice during the fourth quarter 2020.

During 2021, management will be focusing on improved processes and reconciling frequency to reduce the number and totals of unreconciled accounts.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2020

<u>Finding</u>	<u>Description</u>
2020-006	Internal Control Procedures Over Capital Assets and Inventory
<i>Condition:</i>	During our audit we noted internal control procedures that are either not existent or completed effectively. The following items were identified during our audit: inventory is not reconciled on a periodic basis, capital asset balances are compiled and tracked in totals and not depreciated individually.
<i>Criteria:</i>	Internal controls should be in place to ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting.
<i>Cause:</i>	The Utilities did not prepare necessary reconciliations and procedures during the year causing reports to be inaccurate throughout the year.
<i>Effect:</i>	Without having the noted items completed periodically and accurately, the Utilities does not have accurate information throughout the year to analyze, monitor activity, or make decisions based on reliable financial reporting.
<i>Recommendation:</i>	We recommend the following in regards to the noted items above: <ul style="list-style-type: none">• Inventory Balances: we recommend that the Utilities complete periodic inventory counts to ensure balances are materially correct throughout the year. We also recommend the Utilities document and approval a formal procedures to ensure all members are aware of the mentioned procedures This will ensure proper reporting in future years.• Capital Assets: we recommend the Utilities establish procedures to ensure that all capital asset items are tracked and added throughout the year. This includes inventory charge-out items in association with inventory above. We also recommend the Utilities formally review all assets under ownership to create a detailed listing of capital assets.

Management Response:

The inventory count was conducted in 2021 with items documented on work-orders put back towards the inventory value. The inventory items documented on the capital work orders were also transferred as capital assets with the year-end adjustments.

NBWL accounting/billing software has an available inventory/purchasing module but it has not been purchased for use at NBWL. During 2021, management will be purchasing this module to track inventory purchases and better account for the inventory value. Staff will be responsible for inventory management in each of the two areas.

Through use of the inventory module, transfers of inventory to capital projects will be more accurate.

Projects are tracked on workorders. At year-end management reviewed the work orders and summarized the projects to be transferred as capital projects. Transferring after the expense is not ideal for a financial system. Therefore, starting in 2021, when a project is expected to be a capital project, expenses will be entered to a construction-in-process account for non-inventory/non-labor expenses.

With other process improvements still to be made for customer accounts, management recommends deferring the bottom-up capital asset valuation to 2022 and include it in the operating budget request.

North Branch Municipal Water and Light Commission
North Branch, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2020

<u>Finding</u>	<u>Description</u>
2020-007	Claims Approval
<i>Condition:</i>	We conducted an audit under the provisions of the Minnesota Legal Compliance Audit Guide for Cities. This audit for legal compliance requires a review of the Utilities' claims and disbursements. Our study indicated an instance of non-compliance that we believe should be remedied. Minnesota statute § 412.271, subd. 4 states: "When payment of a claim based on contract cannot be deferred until the next Utility Commission meeting without loss to the Utilities through forfeiture of discount privileges or otherwise, it may be made immediately if the itemized claim is endorsed for payment by at least a majority of all the members of the Utilities Commission. The claim shall be acted upon formally at the next Commission meeting in the same manner as if it had not been paid, and the earlier payment shall not affect the right of the Commission or any taxpayer to challenge the validity of the claim."
<i>Criteria:</i>	The Utilities is legally required to pay all claims within 35 days or the agreed contract time period. Some claims may be required to be paid prior to the approval of the next Utilities Commission meeting to avoid this legal compliance issue.
<i>Cause:</i>	The claims paid by the Utilities' were not provided or approved consistently by Utilities Commission.
<i>Effect:</i>	The Utilities' is out of compliance with the statute outlined above.
<i>Recommendation:</i>	The Utilities Commission should approve all disbursements at the Utilities Commission meeting and reconcile that against the claims list so as to assure all checks are included and accurate.
<i>Management Response:</i>	Management recognized the Commission 2020 agendas as being deficient for claims approval and requested and received approval for a General Manager spending authority, emergency purchase approval process, Commission Claims Review/Approval Process, and a Capital Project policy. These individual policies were approved and in place in the fourth quarter 2020 and individual policies integrated with the Administration Policy in the first Quarter 2021. Commission has approved claims starting for October 2020 and will continue reviewing/approving monthly.