NORTH BRANCH
WATER AND LIGHT COMMISSION

North Branch, Minnesota

FINANCIAL STATEMENTS

December 31, 2007

NORTH BRANCH WATER AND LIGHT COMMISSION

TABLE OF CONTENTS
December 31, 2007

Independent Auditors' Report	1
Basic Financial Statements	
Government-Wide Statements	
Statement of Net Assets	2
Statement of Activities	3
Fund Financial Statements	
Statement of Net Assets – Enterprise Funds	4 – 5
Statement of Revenues, Expenses, and Changes in Net Assets – Enterprise Funds	6
Statement of Cash Flows – Enterprise Funds	7 – 8
Notes to Financial Statements	9 – 27
Supplementary Information	
Schedule of Bonded Indebtedness	28 – 32
Schedule of Purchased Power and System Peak Load	33
Schedule of Capital Assets and Accumulated Depreciation	34 – 35
Electric Utility Operating Revenues and Expenses	36 – 37
Water Utility Operating Revenues and Expenses	38

Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the North Branch Water and Light Commission as of and for the year ended December 31, 2007, which collectively comprise the North Branch Water and Light Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Branch Water and Light Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and each major fund of the North Branch Water and Light Commission, as of December 31, 2007, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The North Branch Water and Light Commission, has not presented the management's discussion and analysis that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

Virchow Krause & Company, LLP

Minneapolis, Minnesota
April 14, 2008

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NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF NET ASSETS
December 31, 2007

	Business-type Activities
ASSETS	
Cash and investments	$ 565,230
Customer accounts receivable	536,715
Prepaid items and inventories	460,500
Restricted cash	6,692,522
Other assets	165,505
Capital Assets	
Construction in progress	6,548,603
Land	98,930
Other capital assets, net of depreciation	10,343,887
Total Assets	25,411,892
LIABILITIES	
Accounts payable and accrued expenses	1,313,589
Customer deposits	58,863
Due to primary government	179,145
Deferred rate stabilization	147,880
Noncurrent liabilities	
Due within one year	284,517
Due in more than one year	12,073,979
Total Liabilities	14,057,973
NET ASSETS	
Invested in capital assets, net of related debt	10,752,408
Restricted for:	
Debt service	34,849
Capital projects	408,348
Unrestricted	158,314
Total Net Assets	$ 11,353,919

See accompanying notes to financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Business Type Activities Totals
Business Type Activities					
Electric	3,458,358	3,376,581	-	10,265	(71,512)
Water	572,434	1,087,328	-	1,497,520	2,012,414
Total Business Type Activities	4,030,792	4,463,909	-	1,507,785	1,940,902
General Revenues					
Investment income					288,613
Total General Revenues					288,613
Change in Net Assets					2,229,515
Net Assets - Beginning of Year					9,124,404
NET ASSETS - END OF YEAR					$ 11,353,919

See accompanying notes to financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
December 31, 2007

ASSETS	Electric Utility	Water Utility	Totals
CURRENT ASSETS			
Cash and investments	$ 565,230	$ -	$ 565,230
Customer accounts receivable	337,425	199,290	536,715
Prepaid items	7,165	-	7,165
Due from other funds	19,008	-	19,008
Inventories	424,867	28,468	453,335
Total Current Assets	1,353,695	227,758	1,581,453
NON-CURRENT ASSETS			
Restricted assets			
Reserve account	271,543	220,566	492,109
Redemption account	-	208,061	208,061
Construction account	-	5,584,004	5,584,004
Water hookup charges	-	408,348	408,348
Capital assets			
Plant in service	6,790,022	7,654,667	14,444,689
Accumulated depreciation	(2,962,723)	(1,039,149)	(4,001,872)
Construction work in progress	7,237	6,541,366	6,548,603
Other assets			
Unamortized issuance costs	-	165,505	165,505
Total Non-Current Assets	4,106,079	19,743,368	23,849,447
Total Assets	5,459,774	19,971,126	25,430,900

	Electric Utility	Water Utility	Totals
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	$ 242,246	$ 869,277	$ 1,111,523
Accrued expenses	13,549	-	13,549
Due to the primary government	171,296	7,849	179,145
Due to other funds	-	19,008	19,008
Customer deposits	58,863	-	58,863
Deferred rate stabilization	147,880	-	147,880
Current portion of accrued compensated absences	14,638	4,879	19,517
Current portion of revenue bonds	145,000	120,000	265,000
Accrued interest	15,305	-	15,305
Accrued interest - payable from restricted assets	-	173,212	173,212
Total Current Liabilities	808,777	1,194,225	2,003,002
NON-CURRENT LIABILITIES			
Accrued compensated absences	17,890	5,964	23,854
Revenue bonds payable	2,340,000	9,620,000	11,960,000
Unamortized debt premium	-	109,325	109,325
Unamortized debt discount	-	(19,200)	(19,200)
Total Non-Current Liabilities	2,357,890	9,716,089	12,073,979
Total Liabilities	3,166,667	10,910,314	14,076,981
NET ASSETS			
Invested in capital assets, net of related debt	1,621,079	9,131,329	10,752,408
Restricted - redemption and replacement funding	-	443,197	443,197
Unrestricted	672,028	(513,714)	158,314
TOTAL NET ASSETS	$ 2,293,107	$ 9,060,812	$ 11,353,919

See accompanying notes to financial statements.

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NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
ENTERPRISE FUNDS
For the Year Ended December 31, 2007

	Electric Utility	Water Utility	Totals
OPERATING REVENUES	$ 3,360,313	$ 1,059,722	$ 4,420,035
OPERATING EXPENSES			
Operation and maintenance	3,104,888	247,886	3,352,774
Depreciation	225,530	218,408	443,938
Total Operating Expenses	3,330,418	466,294	3,796,712
Operating Income	29,895	593,428	623,323
NON-OPERATING REVENUES (EXPENSES)			
Investment income	33,155	255,458	288,613
Interest expense	(126,440)	(100,055)	(226,495)
Antenna rental	-	19,496	19,496
Fiscal agent charges	(1,500)	(1,500)	(3,000)
Miscellaneous non-operating revenues	16,268	8,110	24,378
Amortization expense	-	(4,585)	(4,585)
Total Non-Operating Revenue (Expenses)	(78,517)	176,924	98,407
Net Income Before Contributions	(48,622)	770,352	721,730
CAPITAL CONTRIBUTIONS	10,265	1,497,520	1,507,785
CHANGE IN NET ASSETS	(38,357)	2,267,872	2,229,515
NET ASSETS – Beginning of Year	$ 2,331,464	$ 6,792,940	$ 9,124,404
NET ASSETS – END OF YEAR	$ 2,293,107	$ 9,060,812	$ 11,353,919

See accompanying notes to financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended December 31, 2007

	Electric Utility	Water Utility	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 3,336,570	$ 1,129,720	$ 4,466,290
Cash received from city for services	17,795	-	17,795
Cash paid to suppliers for goods and services	(2,730,618)	(149,070)	(2,879,688)
Cash paid to employees for services	(367,779)	(66,847)	(434,626)
Net Cash Flows From Operating Activities	255,968	913,803	1,169,771
CASH FLOWS FROM INVESTING ACTIVITIES			
Marketable securities purchased	-	(4,460,776)	(4,460,776)
Investment income	44,273	256,658	300,931
Net Cash Flows From (Used For) Investing Activities	44,273	(4,204,118)	(4,159,845)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Debt retired	(140,000)	(115,000)	(255,000)
Interest paid	(129,443)	(103,281)	(232,724)
Proceeds from debt issued	-	7,080,000	7,080,000
Premium on debt issued	-	112,071	112,071
Debt issuance costs	-	(131,840)	(131,840)
Acquisition and construction of capital assets	(320,894)	(5,285,665)	(5,606,559)
Net Cash Flows From (Used For) Capital and Related Related Financing Activities	(590,337)	1,556,285	965,948
Net Increase (Decrease) in Cash and Cash Equivalents	(290,096)	(1,734,030)	(2,024,126)
CASH AND CASH EQUIVALENTS - Beginning of Year	759,807	3,499,235	4,259,042
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 469,711	$ 1,765,205	$ 2,234,916
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Cash and Investments per Statement of Net Assets	$ 565,230	$ -	$ 565,230
Restricted Cash and Investments per Statement of Net Assets	271,543	6,420,979	6,692,522
Less: Non-cash Equivalents	(367,062)	(4,655,774)	(5,022,836)
Cash and Cash Equivalents Per Statement of Cash Flows	$ 469,711	$ 1,765,205	$ 2,234,916

	Electric Utility	Water Utility	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	$ 29,895	$ 593,428	$ 623,323
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities			
Non-operating revenues (expenses)	16,268	27,606	43,874
Noncash items included in income			
Depreciation	225,530	218,408	443,938
Change in assets and liabilities			
Customer accounts receivable	(27,100)	42,392	15,292
Inventories	8,178	10,254	18,432
Prepaid items	(1,202)	-	(1,202)
Accounts payable	8,471	4,109	12,580
Accrued expenses	(748)	-	(748)
Due to primary government	8,338	(2,223)	6,115
Due to other funds	(19,008)	19,008	-
Accrued compensated absences	2,462	821	3,283
Customer deposits	4,884	-	4,884
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 255,968	$ 913,803	$ 1,169,771

Non-cash capital, investing & financing activities:

During 2007, the water utility received $1,497,520 of contributed plant from developers.

See accompanying notes to financial statements.

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

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

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

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

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

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

a. Total assets, liabilities, revenues, or expenses of that individual enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

b. The same element of the individual enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all enterprise funds combined.

c. In addition, any other fund that the commission believes is particularly important to financial statement users may be reported as a major fund.

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

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

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

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

Government-Wide Financial Statements

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

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

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

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

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

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Deposits and Investments

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

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

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

The commission has not adopted an investment policy.

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

See Note III.A. for further information.

2. Receivables

Customer accounts receivable in the electric utility fund have been shown net of an allowance for uncollectible accounts of $122,465. All significant receivable balances are expected to be collected within one year.

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

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

3. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets

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

5. Capital Assets

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

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

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

6. Compensated Absences

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

Payments for vacation, sick leave and compensatory time will be made at rates in effect when the benefits are used. Accumulated vacation, sick leave and compensatory time liabilities at December 31, 2007 are determined on the basis of current salary rates and include salary related payments.

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

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

7. Long-Term Obligations

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

8. Charges for Services

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

9. Capital Contributed

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

10. Equity Classifications

Government–Wide Statements

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

a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.

b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

NOTE II – DETAILED NOTES ON ALL FUNDS

A. *DEPOSITS AND INVESTMENTS*

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

	Carrying Value	Bank Balance	Associated Risks
Demand deposits	$ 2,406,986	$ 3,004,609	Custodial credit risk
U.S. agency bonds	4,635,728	4,635,728	Credit, custodial credit, concentration of credit, and interest rate risks
Mutual fund	20,242	20,242	Credit and interest rate risks
Negotiable Certificate of Deposit	194,646	194,646	Credit, custodial credit, concentration of credit, and interest rate risks
Petty cash	150	-	N/A
Total Cash and Investments	$ 7,257,752	$ 7,855,225	

Reconciliation to financial statements	
Per statement of net assets	
Unrestricted cash and investments	$ 565,230
Restricted cash and investments	6,692,522
Total Cash and Investments	$ 7,257,752

Deposits in each local and area bank are insured by the FDIC in the amount of $100,000 for interest bearing accounts and $100,000 for noninterest bearing accounts.

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

The commission maintains collateral agreements with one of its banks. At December 31, 2007, the banks had pledged various government securities in the amount of $1,425,245 to secure the commission's deposits. In addition, deposits at one bank are collateralized by a $1,500,000 irrevocable standby letter of credit.

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

A. *DEPOSITS AND INVESTMENTS* (cont.)

Custodial Credit Risk

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

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

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

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

Credit Risk

As of December 31, 2007, the commission's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's Investors Services
US Agencies – Implicitly Guaranteed	AAA	Aaa

The ratings for the mutual fund and negotiable certificates of deposits are either unavailable or the investments are not rated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At December 31, 2007, the investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio
Federal Home Loan Mortgage Corporation	US Agency – Implicitly Guaranteed	67%
Federal National Mortgage Association	US Agency – Implicitly Guaranteed	14%
Federal Home Loan Bank	US Agency – Implicitly Guaranteed	14%

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

A. *DEPOSITS AND INVESTMENTS* (cont.)

Interest Rate Risk

As of December 31, 2007 the commission's investments were as follows:

Specific Investment	Maturity Date	Fair Value
Federal Home Loan Bank Note	1/30/2008	$ 658,020
Federal National Mortgage Assoc. Note	2/29/2008	655,645
Federal Home Loan Mortgage Note	3/28/2008	653,531
Federal Home Loan Mortgage Note	4/28/2008	651,222
Federal Home Loan Mortgage Note	5/28/2008	649,374
Federal Home Loan Mortgage Note	6/23/2008	647,460
Federal Home Loan Mortgage Note	7/21/2008	645,876
Federal Home Loan Mortgage Note	5/15/2013	50,004
Tennessee Valley Authority Electronotes	10/15/2013	24,596
LaSalle Bank NA – negotiable CD	2/8/2008	97,646
E-Trade Bank – negotiable CD	6/12/2008	97,000
Total		$ 4,830,374

The commission also has $20,242 invested in a money market mutual fund. The weighted average maturity for the mutual fund is 13 days.

B. *RESTRICTED ASSETS*

The following represent the balances of the restricted assets:

Long Term Debt Accounts

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

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

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

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

B. *RESTRICTED ASSETS* (cont.)

Hookup Charge Account

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

Following is a list of restricted assets at December 31, 2007:

	Restricted Assets	Liabilities Payable from Restricted Assets	Net Restricted Assets
Bond redemption account	$ 208,061	$ 173,212	$ 34,849
Bond reserve account	492,109	-	n/a
Construction account	5,584,004	-	n/a
Water hookup charge account	408,348	-	408,348
Total Restricted Assets	$ 6,692,522	$ 173,212	$ 443,197

B. *INTERFUND RECEIVABLE/PAYABLE*

The water utility owed the electric utility $19,008 due to an overdraft on pooled cash as of December 31, 2007. The amount is expected to be repaid within one year.

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

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Electric				
Capital assets not being depreciated:				
Construction in progress	$ 143,829	$ 7,237	$ 143,829	$ 7,237
Land and land rights	16,005	-	-	16,005
Total Capital Assets Not Being Depreciated	159,834	7,237	143,829	23,242
Capital assets being depreciated:				
Buildings and structures	180,168	-	-	180,168
Equipment and vehicles	1,878,553	10,852	-	1,889,405
Distribution system	4,285,528	444,916	26,000	4,704,444
Total Capital Assets Being Depreciated	6,344,249	455,768	26,000	6,774,017
Total Capital Assets	6,504,083	463,005	169,829	6,797,259
Less: Accumulated Depreciation				
Buildings and structures	(50,950)	(3,603)	-	(54,553)
Equipment and vehicles	(935,990)	(70,224)	-	(1,006,214)
Distribution system	(1,776,253)	(151,703)	(26,000)	(1,901,956)
Total Accumulated Depreciation	(2,763,193)	(225,530)	(26,000)	(2,962,723)
Net Electric Plant	$ 3,740,890	$ 237,475	$ 143,829	$ 3,834,536

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

D. CAPITAL ASSETS (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
Water				
Capital assets not being depreciated:				
Construction in progress	$ 903,351	$ 6,152,716	$ 514,700	$ 6,541,366
Land and land rights	82,925	-	-	82,925
Total Capital Assets Not Being Depreciated	986,275	6,152,716	514,700	6,624,291
Capital assets being depreciated:				
Buildings and structures	1,801,354	-	-	1,801,354
Equipment and vehicles	303,581	41,331	-	344,912
Distribution system	3,321,403	2,104,073	-	5,425,476
Total Capital Assets Being Depreciated	5,426,338	2,145,404	-	7,571,742
Total Capital Assets	6,412,613	8,298,120	514,700	14,196,033
Less: Accumulated Depreciation				
Buildings and structures	(245,260)	(36,027)	-	(281,287)
Equipment and vehicles	(126,975)	(18,295)	-	(145,270)
Distribution system	(448,506)	(164,086)	-	(621,592)
Total Accumulated Depreciation	(820,741)	(218,408)	-	(1,039,149)
Net Water Plant	$ 5,591,872	$ 8,079,712	$ 514,700	$ 13,156,884

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

D. CAPITAL ASSETS (cont.)

Depreciation expense was charged to functions as follows:

Business-Type Activities	
Electric	$ 225,530
Water	218,408
Total Business-Type Activities Depreciation Expense	$ 443,938

E. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES					
Revenue bonds	$ 5,400,000	$ 7,080,000	$ 255,000	$ 12,225,000	$ 265,000
Add/(Subtract) Deferred Amounts For:					
(Discounts)	(20,400)	-	(1,200)	(19,200)	-
Premium	-	112,071	2,746	109,325	-
Sub-total	5,379,600	7,192,071	256,546	12,315,125	265,000
Other Liabilities:					
Vested compensated absences	40,088	21,323	18,040	43,371	19,517
Total Other Liabilities	40,088	21,323	18,040	43,371	19,517
Total Business-Type Activities Long-Term Liabilities	$ 5,419,688	$ 7,213,394	$ 274,587	$ 12,358,496	$ 284,517

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

E. LONG-TERM OBLIGATIONS (cont.)

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

	Date of Issue	Final Maturity	Interest Rates	Original Indebted-ness	Balance 12-31-07
Electric Utility					
Revenue Bonds	5/1/1998	5/1/2018	4.0 – 5.4%	$ 1,675,000	$ 1,115,000
Revenue Bonds	12/1/2002	12/1/2022	1.9 - 5.25%	1,675,000	1,370,000
				Total Electric Utility	2,485,000
Water Utility					
Revenue Bonds	3/1/2004	3/1/2024	2.0 – 4.5%	3,000,000	2,660,000
Revenue Bonds	8/1/2007	8/1/2027	4.5 – 4.75%	7,080,000	7,080,000
				Total Water Utility	9,740,000
Total Business-Type Activities Revenue Debt					$ 12,225,000

Debt service requirements to maturity are as follows:

	Business-Type Activities Revenue Debt	
Years	Principal	Interest
2008	$ 265,000	$ 556,535
2009	510,000	547,141
2010	530,000	526,149
2011	560,000	503,904
2012	580,000	479,571
2013 – 2017	3,300,000	1,985,191
2018 – 2022	3,565,000	1,191,422
2023 – 2027	2,915,000	387,038
Totals	$ 12,225,000	$ 6,176,947

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

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

E. LONG-TERM OBLIGATIONS (cont.)

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid by the electric and water utilities for 2007 were $269,443 and $218,281, respectively. Total customer net electric and water revenues as defined for 2007 were $313,613 and $1,088,815, respectively.

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

Bond Covenant Disclosures

As of December 31, 2007, the commission was not in compliance with the provisions of the 1998 and 2002 electric system revenue bond covenants that require a 125% debt coverage requirement. The electric utility will continue to monitor revenues and budgeted expenses.

The water utility has the following number of connections for 2007: 1,526 residential and 212 commercial. The water utility billed for a total of 136,021,000 gallons in 2007.

F. NET ASSETS/FUND BALANCES

Net assets reported on the statement of net assets at December 31, 2007 includes the following:

Business-Type Activities

Invested in capital assets, net of related debt	
Construction in progress	$ 6,548,603
Land	98,930
Other capital assets, net of accumulated depreciation	10,343,887
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	(6,239,012)
Total Invested in Capital Assets	10,752,408
Restricted	
Debt service	34,849
Water hookup charges	408,348
Total Restricted	443,197
Unrestricted	158,314
Total Business-Type Activities Net Assets	$ 11,353,919

NOTE III – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

Plan Description

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

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

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

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members.

For all PEPFF members, PECF members, and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

NOTE III – OTHER INFORMATION (cont.)

A. *EMPLOYEES' RETIREMENT SYSTEM* (cont.)

Plan Description (cont.)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

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

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The commission makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0%. PEPFF members are required to contribute 7.8% of their annual covered salary in 2007. That rate will increase to 8.6% in 2008. PECF members are required to contribute 5.83% of their annual covered salary.

The commission is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.25% for Coordinated Plan PERF members, 11.7% for PEPFF members, and 8.75% for PECF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.5% and 12.9% respectively, effective January 1, 2008.

The commission's contributions to the Public Employees Retirement Fund for the years ending December 31, 2007, 2006, and 2005 were $26,811, $21,115, and $20,186, respectively. The contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE III – OTHER INFORMATION (cont.)

B. RISK MANAGEMENT

The commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

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

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

C. COMMITMENTS AND CONTINGENCIES

Commitments

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

Claims and Judgments

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

NOTE III – OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES (cont.)

Long-Term Contracts - SMMPA

The commission purchases power from the Southern Minnesota Municipal Power Agency (SMMPA) under a power sales contract which extends to April 2030. Under the terms of the contract, the commission is obligated to buy all the electrical power and energy needs to operate the electric utilities through the term of the contract. In addition, on January 1, 1995, the commission entered a Capacity Purchase Agreement with SMMPA, whereby SMMPA is entitled to the exclusive use of the net electric generating capability of the Diesel Generating facilities and the electric energy associated therewith. The agreement is cancelable by either party upon a five-year notice. Under terms of the agreement, SMMPA is responsible for all costs associated with the operation, maintenance, repairs, and other liabilities of operating the Diesel Generating Facilities.

Construction Commitment

During 2007, the utility entered into a contract for construction of a water treatment plant. As of December 31, 2007, the remaining balance on the contract was $1,514,911.

D. RATE STABILIZATION RESERVE

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

E. SUBSEQUENT EVENT

On February 20, 2008, the commission awarded a construction contract for construction of a well house for $310,214.

In February 2008, the utility agreed to purchase a well for $166,325 with payments from 2008 to 2010.

SUPPLEMENTARY INFORMATION

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North Branch Municipal Water and Light Commission

Schedule of Bonded Indebtedness
December 31, 2007

	$7,080,000 Electric Revenue Bonds of 2007	$3,000,000 Water System Revenue Bonds Series 2004	$1,675,000 Electric Revenue Bonds of 1998	$1,675,000 Electric Revenue Bonds of 2002	Totals
Bonds payable	$ 7,080,000	$ 2,660,000	$ 1,115,000	$ 1,370,000	$ 12,225,000
Future interest payable	4,177,160	1,039,055	361,258	599,474	6,176,947
Total	$ 11,257,160	$ 3,699,055	$ 1,476,258	$ 1,969,474	$ 18,401,947
Payments to maturity:					
2008	334,198	220,390	137,643	129,304	821,535
2009	574,198	217,390	133,523	132,030	1,057,141
2010	573,398	219,203	134,212	129,336	1,056,149
2011	577,148	220,566	134,550	131,640	1,063,904
2012	575,223	216,341	134,555	133,452	1,059,571
2013	576,473	216,703	134,290	130,052	1,057,518
2014	574,438	216,890	133,755	131,534	1,056,617
2015	576,838	216,758	132,950	132,622	1,059,168
2016	572,663	216,263	131,875	133,482	1,054,283
2017	573,038	220,250	135,395	128,924	1,057,607
2018	572,738	218,750	133,510	129,362	1,054,360
2019	574,988	217,050	-	129,412	921,450
2020	576,238	219,600	-	133,900	929,738
2021	576,488	216,388	-	132,862	925,738
2022	575,738	217,838	-	131,562	925,138
2023	573,988	213,950	-	-	787,938
2024	572,375	214,725	-	-	787,100
2025	574,813		-	-	574,813
2026	576,063		-	-	576,063
2027	576,125		-	-	576,125
2028	-		-	-	-
2029	-		-	-	-
2030	-		-	-	-
2031	-		-	-	-
2032	-		-	-	-
2033	-		-	-	-
2034	-		-	-	-
2035	-		-	-	-
2036	-		-	-	-
2037	-	-	-	-	-
TOTALS	$ 11,257,160	$ 3,699,055	$ 1,476,258	$ 1,969,474	$ 18,401,947

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

Schedule of Bonded Indebtedness - Electric Fund
December 31, 2007

$1,675,000 Electric System Revenue Bonds of 1998

Due Date	Interest Rate	Principal	Interest	Total
5/1/2008	5.10%	80,000	29,842	109,842
11/1/2008	5.20%	-	27,801	27,801
5/1/2009	5.20%	80,000	27,801	107,801
11/1/2009	5.25%	-	25,722	25,722
5/1/2010	5.25%	85,000	25,722	110,722
11/1/2010	5.40%	-	23,490	23,490
5/1/2011	5.40%	90,000	23,490	113,490
11/1/2011	5.40%	-	21,060	21,060
5/1/2012	5.40%	95,000	21,060	116,060
11/1/2012	5.40%	-	18,495	18,495
5/1/2013	5.40%	100,000	18,495	118,495
11/1/2013	5.40%	-	15,795	15,795
5/1/2014	5.40%	105,000	15,795	120,795
11/1/2014	5.40%	-	12,960	12,960
5/1/2015	5.40%	110,000	12,960	122,960
11/1/2015	5.40%	-	9,990	9,990
5/1/2016	5.40%	115,000	9,990	124,990
11/1/2016	5.40%	-	6,885	6,885
5/1/2017	5.40%	125,000	6,885	131,885
11/1/2017	5.40%	-	3,510	3,510
5/1/2018	5.40%	130,000	3,510	133,510
Total bonded indebtedness		$ 1,115,000	$ 361,258	$ 1,476,258

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

Schedule of Bonded Indebtedness - Electric Fund
December 31, 2007

$1,675,000 Electric System Revenue Bonds of 2002

Due Date	Interest Rate	Principal	Interest	Total
6/1/2008	3.50%	-	32,152	32,152
12/1/2008	3.50%	65,000	32,152	97,152
6/1/2009	3.85%	-	31,015	31,015
12/1/2009	3.85%	70,000	31,015	101,015
6/1/2010	3.85%	-	29,668	29,668
12/1/2010	3.85%	70,000	29,668	99,668
6/1/2011	4.25%	-	28,320	28,320
12/1/2011	4.25%	75,000	28,320	103,320
6/1/2012	4.25%	-	26,726	26,726
12/1/2012	4.25%	80,000	26,726	106,726
6/1/2013	4.40%	-	25,026	25,026
12/1/2013	4.40%	80,000	25,026	105,026
6/1/2014	4.60%	-	23,267	23,267
12/1/2014	4.60%	85,000	23,267	108,267
6/1/2015	4.60%	-	21,311	21,311
12/1/2015	4.60%	90,000	21,311	111,311
6/1/2016	4.80%	-	19,241	19,241
12/1/2016	4.80%	95,000	19,241	114,241
6/1/2017	4.80%	-	16,962	16,962
12/1/2017	4.80%	95,000	16,962	111,962
6/1/2018	4.95%	-	14,681	14,681
12/1/2018	4.95%	100,000	14,681	114,681
6/1/2019	5.25%	-	12,206	12,206
12/1/2019	5.25%	105,000	12,206	117,206
6/1/2020	5.25%	-	9,450	9,450
12/1/2020	5.25%	115,000	9,450	124,450
6/1/2021	5.25%	-	6,431	6,431
12/1/2021	5.25%	120,000	6,431	126,431
6/1/2022	5.25%	-	3,281	3,281
12/1/2022	5.25%	125,000	3,281	128,281
Total bonded indebtedness		$ 1,370,000	$ 599,474	$ 1,969,474

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

Schedule of Bonded Indebtedness - Water Fund
December 31, 2007

$3,000,000 Water System Revenue Bonds, Series 2004

Due Date	Interest Rate	Principal	Interest	Total
3/1/2008	2.50%	120,000	50,945	170,945
9/1/2008	2.50%	-	49,445	49,445
3/1/2009	2.50%	120,000	49,445	169,445
9/1/2009	2.50%	-	47,945	47,945
3/1/2010	2.70%	125,000	47,945	172,945
9/1/2010	2.70%	-	46,258	46,258
3/1/2011	3.00%	130,000	46,258	176,258
9/1/2011	3.00%	-	44,308	44,308
3/1/2012	3.50%	130,000	44,308	174,308
9/1/2012	3.50%	-	42,033	42,033
3/1/2013	3.50%	135,000	42,033	177,033
9/1/2013	3.50%	-	39,670	39,670
3/1/2014	3.50%	140,000	39,670	179,670
9/1/2014	3.50%	-	37,220	37,220
3/1/2015	3.70%	145,000	37,220	182,220
9/1/2015	3.70%	-	34,538	34,538
3/1/2016	3.75%	150,000	34,538	184,538
9/1/2016	3.75%	-	31,725	31,725
3/1/2017	4.00%	160,000	31,725	191,725
9/1/2017	4.00%	-	28,525	28,525
3/1/2018	4.00%	165,000	28,525	193,525
9/1/2018	4.00%	-	25,225	25,225
3/1/2019	4.00%	170,000	25,225	195,225
9/1/2019	4.00%	-	21,825	21,825
3/1/2020	4.50%	180,000	21,825	201,825
9/1/2020	4.50%	-	17,775	17,775
3/1/2021	4.50%	185,000	17,775	202,775
9/1/2021	4.50%	-	13,613	13,613
3/1/2022	4.50%	195,000	13,613	208,613
9/1/2022	4.50%	-	9,225	9,225
3/1/2023	4.50%	200,000	9,225	209,225
9/1/2023	4.50%	-	4,725	4,725
3/1/2024	4.50%	210,000	4,725	214,725
Total bonded indebtedness		$ 2,660,000	$ 1,039,055	$ 3,699,055

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

Schedule of Bonded Indebtedness - Water Fund
December 31, 2007

$7,080,000 Water System Revenue Bonds, Series 2007

Due Date	Interest Rate	Principal	Interest	Total
2/1/2008		-	$ 167,099	167,099
8/01/2008		-	167,099	167,099
2/1/2009		-	167,099	167,099
8/01/2009	4.50%	240,000	167,099	407,099
2/1/2010		-	161,699	161,699
8/01/2010	4.50%	250,000	161,699	411,699
2/1/2011		-	156,074	156,074
8/01/2011	4.50%	265,000	156,074	421,074
2/1/2012		-	150,111	150,111
8/01/2012	5.00%	275,000	150,111	425,111
2/1/2013		-	143,236	143,236
8/01/2013	4.15%	290,000	143,236	433,236
2/1/2014		-	137,219	137,219
8/01/2014	4.20%	300,000	137,219	437,219
2/1/2015		-	130,919	130,919
8/01/2015	4.50%	315,000	130,919	445,919
2/1/2016		-	123,831	123,831
8/01/2016	4.50%	325,000	123,831	448,831
2/1/2017		-	116,519	116,519
8/01/2017	4.50%	340,000	116,519	456,519
2/1/2018		-	108,869	108,869
8/01/2018	5.00%	355,000	108,869	463,869
2/1/2019		-	99,994	99,994
8/01/2019	5.00%	375,000	99,994	474,994
2/1/2020		-	90,619	90,619
8/01/2020	5.00%	395,000	90,619	485,619
2/1/2021		-	80,744	80,744
8/01/2021	5.00%	415,000	80,744	495,744
2/1/2022		-	70,369	70,369
8/01/2022	5.00%	435,000	70,369	505,369
2/1/2023		-	59,494	59,494
8/01/2023	4.75%	455,000	59,494	514,494
2/1/2024		-	48,688	48,688
8/01/2024	4.75%	475,000	48,688	523,688
2/1/2025		-	37,406	37,406
8/01/2025	4.75%	500,000	37,406	537,406
2/1/2026		-	25,531	25,531
8/01/2026	4.75%	525,000	25,531	550,531
2/1/2027		-	13,063	13,063
8/01/2027	4.75%	550,000	13,063	563,063
Total bonded indebtedness		$ 7,080,000	$ 4,177,160	$ 11,257,160

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NORTH BRANCH WATER AND LIGHT COMMISSION

SCHEDULE OF PURCHASED POWER AND SYSTEM PEAK LOAD
For the Year Ended December 31, 2007

Month	Date	Time of System Peak Load	Peak Load	Purchased Power KWH	Purchased Power Total Cost
January	1/16/2007	7:00 PM	4,720	2,701,920	$ 178,529
February	2/8/2007	7:00 PM	4,740	2,484,500	169,943
March	3/6/2007	7:00 PM	4,200	2,447,240	181,280
April	4/30/2007	1:00 PM	4,400	2,330,080	175,474
May	5/14/2007	4:00 PM	6,040	2,539,740	187,930
June	6/26/2007	1:00 PM	7,420	2,960,840	215,857
July	7/26/2007	3:00 PM	8,100	3,309,660	241,088
August	8/1/2007	12:00 PM	6,880	3,073,400	220,241
September	9/5/2007	3:00 PM	7,360	2,642,640	205,683
October	10/5/2007	3:00 PM	4,580	2,521,860	185,993
November	11/29/2007	6:00 PM	4,700	2,483,280	180,796
December	12/10/2007	6:00 PM	4,980	2,768,260	199,082
		Totals		32,263,420	2,341,896
		Less: Excess Equity Distribution			(53,093)
		Total purchased power expense			$ 2,288,803

NORTH BRANCH WATER AND LIGHT COMMISSION

SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
For the Year Ended December 31, 2007

	Capital Assets			
	Balance 12/31/2006	Additions	Deletions	Balance 12/31/2007
Electric utility				
Land	$ 16,005	$ -	$ -	$ 16,005
Buildings	180,168	-	-	180,168
Equipment	1,760,859	10,852	-	1,771,711
Distribution system	3,898,583	444,916	26,000	4,317,499
Substations	386,945	-	-	386,945
Trucks	51,601	-	-	51,601
Computer	32,347	-	-	32,347
Office equipment and tools	33,746	-	-	33,746
Construction work in progress	143,829	7,237	143,829	7,237
Total electric utility	6,504,083	463,005	169,829	6,797,259
Water utility				
Land	82,925	-	-	82,925
Filter building	28,648	-	-	28,648
Filter equipment	21,527	-	-	21,527
Fluoridation system	940	-	-	940
Distribution main and services	101,539	-	-	101,539
Water meters	98,951	30,479	-	129,430
Wells	878,169	12,115	-	890,284
Equipment	133,592	10,852	-	144,444
Computer	3,486	-	-	3,486
Watertower	1,772,706	-	-	1,772,706
Trucks	46,025	-	-	46,025
Distribution system	2,340,755	2,091,958	-	4,432,713
Construction in progress	903,350	6,152,716	514,700	6,541,366
Total water utility	6,412,613	8,298,120	514,700	14,196,033
Total utilities	$ 12,916,696	$ 8,761,125	$ 684,529	$ 20,993,292

	Accumulated Depreciation				
Rate	Balance 12/31/2006	Additions	Deletions	Balance 12/31/2007	Net Capital Assets
0%	$ -	$ -	$ -	$ -	$ 16,005
2%	50,950	3,603	-	54,553	125,615
4%	831,137	62,010	-	893,147	878,564
3%	1,494,637	151,703	26,000	1,620,340	2,697,159
4%	281,616	-	-	281,616	105,329
10%	51,601	-	-	51,601	-
20%	21,251	6,469	-	27,720	4,627
10%	32,001	1,745	-	33,746	-
0%	-	-	-	-	7,237
	2,763,193	225,530	26,000	2,962,723	3,834,536
0%	-	-	-	-	82,925
2%	16,815	573	-	17,388	11,260
5%	21,527	-	-	21,527	-
5%	940	-	-	940	-
2%	101,539	-	-	101,539	-
5%	29,653	6,471	-	36,124	93,306
2%	44,407	17,806	-	62,213	828,071
5%	62,749	7,222	-	69,971	74,473
20%	3,486	-	-	3,486	-
2%	228,445	35,454	-	263,899	1,508,807
10%	9,560	4,602	-	14,162	31,863
3%	301,620	146,280	-	447,900	3,984,813
0%	-	-	-	-	6,541,366
	820,741	218,408	-	1,039,149	13,156,884
	$ 3,583,934	$ 443,938	$ 26,000	$ 4,001,872	$ 16,991,420

NORTH BRANCH WATER AND LIGHT COMMISSION

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES
For the Year Ended December 31, 2007

OPERATING REVENUES	
Sales of Electricity	
Residential	$1,287,554
Commercial	1,212,071
Large power	436,066
Street lighting	17,795
Security lighting	3,011
Total Sales of Electricity	2,956,497
Other Operating Revenues	
Penalties	62,008
Generation income	196,608
Quick start	144,000
Connection charges	1,200
Total Other Operating Revenues	403,816
Total Operating Revenues	3,360,313
OPERATING EXPENSES	
Operation and Maintenance Expenses	
Production Expenses	
Operation supervision and labor	42,603
Operation supplies and expenses	30,429
Fuel oil	47,885
Lubricating oil	6,603
Natural gas	5,969
Maintenance of equipment	18,428
Maintenance of building	3,047
Total Production Expenses	154,964
Other Power Supply Expenses	
Purchased power	2,288,803
Total Other Power Supply Expenses	2,288,803
Distribution Expenses	
Operation supervision and labor	151,759
Warehouse heat	6,744
Light plant heating	13,522
Tools	14,047
Truck expenses	13,442
Supplies and maintenance	18,724
Building maintenance	118
Distribution equipment maintenance	2,822
Total Distribution Expenses	221,178

NORTH BRANCH WATER AND LIGHT COMMISSION

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES
For the Year Ended December 31, 2007

OPERATING EXPENSES (cont.)

Territory Acquisition Expenses	
Territory acquisition expense	35,374
Total Territory Acquisition Expenses	35,374
Demand Side Management Expense	
Demand side management	6,437
Total Demand Side Management Expense	6,437
Accounting and Collecting Expenses	
Accounting and collecting labor	68,859
Total Accounting and Collecting Expenses	68,859
Administrative and General Expenses	
Administrative and general salaries	54,746
Office supplies and expenses	14,824
Computer supplies	4,339
Property insurance	42,846
Professional fees	25,504
Employee pensions and benefits	121,398
Communications	3,805
Subscriptions, dues and travel	14,601
Training and safety	16,066
Advertising and promotions	1,006
Clothing allowance	8,134
Credit card fees	4,209
Street lighting payment to the city	17,795
Total Administrative and General Expenses	329,273
Total Operation and Maintenance Expenses	3,104,888
Depreciation	225,530
Total Operating Expenses	3,330,418
OPERATING INCOME	$ 29,895

NORTH BRANCH WATER AND LIGHT COMMISSION

WATER UTILITY OPERATING REVENUES AND EXPENSES
For the Year Ended December 31, 2007

OPERATING REVENUES	
Sales of Water	
Sale of water	$ 555,580
Total Sales of Water	555,580
Other Operating Revenues	
Trunk fees	430,259
Connection charges	56,476
Penalties	11,362
Other water revenue	6,045
Total Other Operating Revenues	504,142
Total Operating Revenues	1,059,722
OPERATING EXPENSES	
Operation and Maintenance Expenses	
Production Expenses	
Natural gas	3,682
Operation supplies and expenses	12,791
Maintenance of equipment	4,304
Maintenance of building	597
Water supply testing	10,944
Total Production Expenses	32,318
Distribution Expenses	
Operation labor	24,925
Operation supplies and expenses	54,513
Tools	6,427
Distribution Equipment	2,822
Truck expenses	3,064
Total Distribution Expenses	91,751
Accounting and Collecting Expenses	
Accounting and collecting labor	22,852
Total Accounting and Collecting Expenses	22,852
Administrative and General Expenses	
Administrative and general salaries	19,070
Office supplies and expenses	5,049
Professional services	38,327
Employee Pension and Benefits	20,624
Property insurance	11,644
Communications	1,249
Dues and subscriptions	2,961
Training and safety	792
Miscellaneous general expenses	1,249
Total Administrative and General Expenses	100,965
Total Operation and Maintenance Expenses	247,886
Depreciation	218,408
Total Operating Expenses	466,294
OPERATING INCOME	$ 593,428