

CITY OF NORTH BRANCH, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2015

**CITY OF NORTH BRANCH, MINNESOTA
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DECEMBER 31, 2015**

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INTRODUCTORY SECTION

**CITY OF NORTH BRANCH, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2015**

ELECTED OFFICIALS

| Position | Term Expires | Name |
|----------------|--------------|-----------------------|
| Mayor | 12/31/2016 | Kirsten Hagen-Kennedy |
| Council Member | 12/31/2016 | Theresa Furman |
| Council Member | 12/31/2016 | Joyce Borchardt |
| Council Member | 12/31/2018 | Kathy Blomquist |
| Council Member | 12/31/2018 | Robert Canada |

APPOINTED OFFICIALS

| Position | Name |
|--------------------|------------------|
| City Administrator | Bridgitte Konrad |

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of North Branch
North Branch, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of North Branch (the City), Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of North Branch Municipal Water and Light Commission, which represents the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for North Branch Municipal Water and Light Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of North Branch, Minnesota, as of December 31, 2015, the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended December 31, 2015, the City adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the City reported a restatement for the change in accounting principle (see Note 12). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Branch's basic financial statements. The combining and individual nonmajor fund financial statements, the debt service fund by bond issue financial statements, and the capital projects Fund by capital project financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

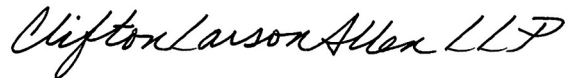
Other Matters (continued)

Other Information (continued)

The combining and individual nonmajor fund financial statements, the debt service fund by bond issue financial statements, and the capital projects fund by capital project financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the debt service fund by bond issue financial statements, and the capital projects fund by capital project financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
May 10, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

This section of the City of North Branch's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2015. The management's discussion and analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2015) and the prior year (2014) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2015 include the following:

- City-wide net position increased by approximately \$1,440,000 over the prior year. This is due primarily to the City controlling costs and maintaining revenue sources.
- Overall, governmental fund-level revenues totaled \$7,830,002 and were \$309,115 more than expenditures. However, transfers and refunded bond payments in the governmental funds caused the governmental funds to have an overall decrease in fund balance of \$1,547,961.
- The General Fund's fund balance increased \$145,821, or 5.57% from the prior year due mainly to revenues being higher than budget and expenditures being lower than budget.
- At the end of the current year, unassigned fund balance for the General Fund was \$2,668,611, or 78.69% of General Fund expenditures.
- The Sewer Fund net position decreased \$280,604, or (3.55%) from the prior year's restated net position. Depreciation expense in this fund totaled \$608,988. The Municipal Liquor Fund net position increased \$73,214, or 21.30% over the prior year's restated net position including the impact of depreciation expense of \$18,128. The Storm Sewer Utility Fund net position decreased \$193,519, or (2.95%) from the prior year's restated net position. Depreciation expense in this fund totaled \$227,520.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are City-wide financial statements which provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the City, reporting the City's operations in more detail than the City-wide statements.
 - The governmental funds statements tell how basic services such as general government, public safety, and public works were financed in the short-term, as well as what remains for future spending.
 - The proprietary funds statements tell how the City's various business-type activities such as sewer, municipal liquor, and storm sewer activities are operating, as well as what remains for future spending.

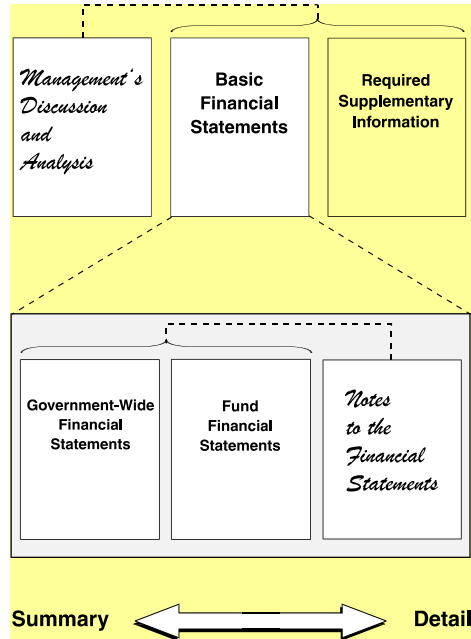
**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

| Type of Statements | Government-Wide | Governmental Funds | Proprietary Funds |
|---|---|---|--|
| Scope | Entire City's government (except fiduciary funds). | The activities of the City that are not proprietary or fiduciary. | The activities of the City that operate similar to private businesses: water, sewer, municipal liquor as examples. |
| Required financial statements | Statement of net position. | Balance sheet. | Statement of net position. |
| | Statement of activities. | Statement of revenues, expenditures and changes in fund balances. | Statement of revenues, expenses, and changes in net position, and statement of cash flows. |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus. | Modified accrual accounting and current financial resources focus. | Accrual accounting and economic resources focus. |
| Type of Asset and Deferred Outflow of Resources/ Liability and Deferred Inflow of Resources Information | All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term. | Only assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter, no capital assets included. | All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, and short-term and long-term. |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid. | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter. | All revenues and expenses during the year, regardless of when cash is received or paid. |

City-Wide Statements

The City-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two City-wide statements report the City's net position and how it has changed. Net position – the difference between the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources – are one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of City buildings and other facilities.

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

City-Wide Statements (Continued)

In the City-wide financial statements, the City's activities are shown in two categories:

- *Governmental Activities* – The City's basic services are included here. Property taxes, special assessments and state aids finance most of these activities.
- *Business-Type Activities* – The City's enterprise fund operations are included here. Charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds – focusing on its most significant or "major" funds – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The City has two kinds of funds:

- *Governmental Funds* – The City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the City-wide statements, we provide additional information after the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary Funds* – The City reports three proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, municipal liquor, and storm sewer services. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's net position was \$35,533,864 on December 31, 2015 (see Table A-1).

**Table A-1
The City's Net Position**

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Current and Other Assets | \$ 11,990,573 | \$ 14,186,004 | \$ 2,144,448 | \$ 2,070,140 | \$ 14,135,021 | \$ 16,256,144 |
| Capital Assets | 31,477,884 | 32,180,475 | 23,846,265 | 24,690,901 | 55,324,149 | 56,871,376 |
| Total Assets | 43,468,457 | 46,366,479 | 25,990,713 | 26,761,041 | 69,459,170 | 73,127,520 |
| Deferred Outflows of Resources | 478,443 | 60,749 | 55,773 | - | 534,216 | 60,749 |
| Current Liabilities | 4,017,986 | 5,219,778 | 1,289,692 | 640,759 | 5,307,678 | 5,860,537 |
| Long-Term Liabilities | 18,624,532 | 20,779,361 | 10,293,982 | 10,932,836 | 28,918,514 | 31,712,197 |
| Total Liabilities | 22,642,518 | 25,999,139 | 11,583,674 | 11,573,595 | 34,226,192 | 37,572,734 |
| Deferred Inflows of Resources | 192,058 | 60,749 | 41,272 | - | 233,330 | 60,749 |
| Net Position | | | | | | |
| Net Investment In Capital Assets | 10,982,334 | 9,425,212 | 12,965,825 | 13,432,282 | 23,948,159 | 22,857,494 |
| Restricted | 9,145,436 | 9,976,876 | - | - | 9,145,436 | 9,976,876 |
| Unrestricted | 984,554 | 1,026,001 | 1,455,715 | 1,755,164 | 2,440,269 | 2,781,165 |
| Total Net Position | \$ 21,112,324 | \$ 20,428,089 | \$ 14,421,540 | \$ 15,187,446 | \$ 35,533,864 | \$ 35,615,535 |

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$11,418,326 for the year ended December 31, 2015. Property taxes and intergovernmental revenues accounted for 53.7% of total revenue for the year, while user charges accounted for 39.8% of total revenue (see Table A-2).

**Table A-2
Change in Net Position**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| REVENUES | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$ 378,703 | \$ 368,956 | \$ 4,166,062 | \$ 4,045,118 | \$ 4,544,765 | \$ 4,414,074 |
| Operating Grants and Contributions | 463,056 | 442,388 | - | - | 463,056 | 442,388 |
| Capital Grants and Contributions | 791,353 | 1,571,084 | - | 14,118 | 791,353 | 1,585,202 |
| General Revenues | | | | | | |
| Property Taxes | 4,204,024 | 4,037,822 | 49,820 | - | 4,253,844 | 4,037,822 |
| Tax Increment Financing | 664,551 | 673,941 | - | - | 664,551 | 673,941 |
| Grants and Contributions not Restricted to Specific Programs | 624,123 | 566,035 | - | - | 624,123 | 566,035 |
| Unrestricted Investment Earnings | 28,972 | 54,886 | 1,250 | 1,272 | 30,222 | 56,158 |
| Miscellaneous Revenues | 46,412 | 78,635 | - | 2,800 | 46,412 | 81,435 |
| Total Revenues | 7,201,194 | 7,793,747 | 4,217,132 | 4,063,308 | 11,418,326 | 11,857,055 |
| EXPENSES | | | | | | |
| General Government | 1,676,516 | 1,762,425 | - | - | 1,676,516 | 1,762,425 |
| Public Safety | 1,884,340 | 1,797,678 | - | - | 1,884,340 | 1,797,678 |
| Public Works | 1,419,293 | 1,630,557 | - | - | 1,419,293 | 1,630,557 |
| Culture and Recreation | 245,948 | 250,231 | - | - | 245,948 | 250,231 |
| Interest on Long-Term Debt | 725,910 | 871,666 | - | - | 725,910 | 871,666 |
| Sewer | - | - | 1,427,426 | 1,339,394 | 1,427,426 | 1,339,394 |
| Liquor Store | - | - | 2,145,184 | 2,063,836 | 2,145,184 | 2,063,836 |
| Storm Sewer | - | - | 452,507 | 470,083 | 452,507 | 470,083 |
| Total Expenses | 5,952,007 | 6,312,557 | 4,025,117 | 3,873,313 | 9,977,124 | 10,185,870 |
| CHANGE IN NET POSITION BEFORE TRANSFERS | | | | | | |
| | 1,249,187 | 1,481,190 | 192,015 | 189,995 | 1,441,202 | 1,671,185 |
| Transfers - Primary Government | 592,924 | 586,661 | (592,924) | (586,661) | - | - |
| CHANGE IN NET POSITION | 1,842,111 | 2,067,851 | (400,909) | (396,666) | 1,441,202 | 1,671,185 |
| Net Position - Beginning of Year | 20,428,089 | 18,360,238 | 15,187,446 | 15,584,112 | 35,615,535 | 33,944,350 |
| Change in Accounting Principle | (1,157,876) | - | (364,997) | - | (1,522,873) | - |
| Net Position - Beginning of Year, as Restated | 19,270,213 | 18,360,238 | 14,822,449 | 15,584,112 | 34,092,662 | 33,944,350 |
| NET POSITION - END OF YEAR | \$ 21,112,324 | \$ 20,428,089 | \$ 14,421,540 | \$ 15,187,446 | \$ 35,533,864 | \$ 35,615,535 |

Total revenues surpassed expenses, increasing net position \$1,441,202 over last year.

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The City-wide cost of all governmental activities this year was \$5,952,007.

- Some of the cost was paid by the users of the City's programs (\$378,703).
- Federal and state government payments (\$1,254,409) subsidized certain programs.
- Ad valorem property taxes (\$4,204,024), tax increment financing (664,551) and unrestricted state grants (\$624,123) also helped fund the net costs of governmental services.
- Transfers from the City's business-type operations also support governmental operations (\$140,000) and make their portion of scheduled debt payments (\$452,924).

Figure A-3 Sources of City's Revenues for Fiscal 2015

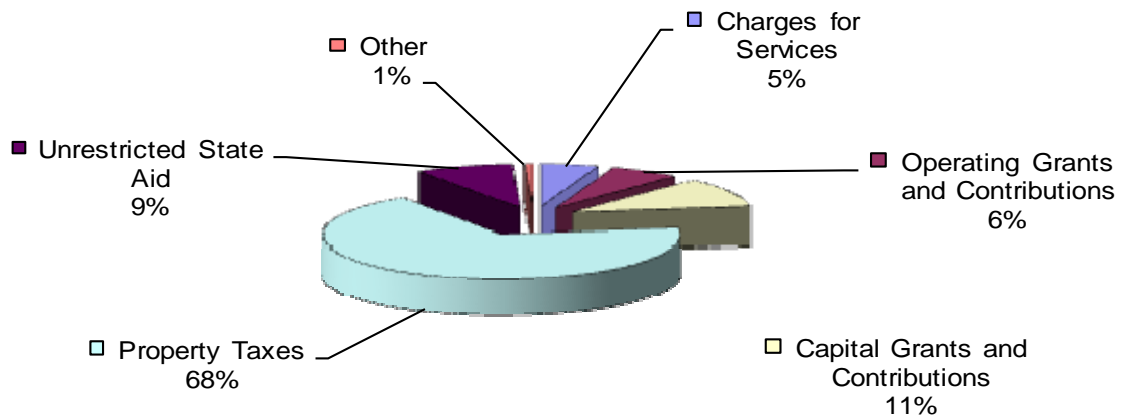
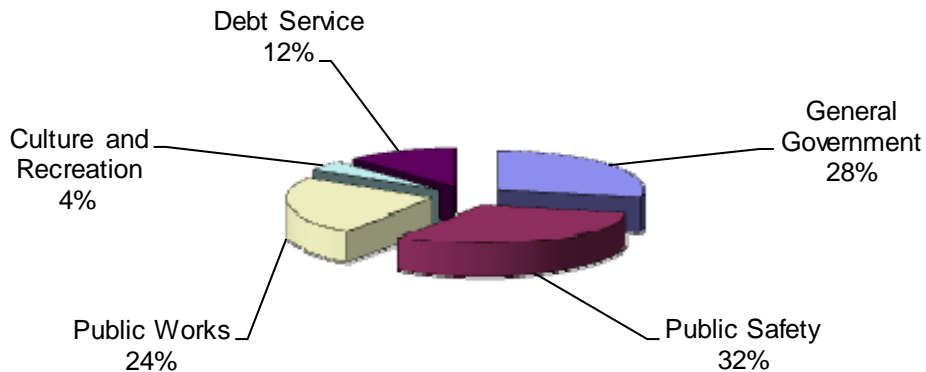


Figure A-4 City's Expenses for Fiscal 2015



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**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

**Table A-3
Program Expenses and Net Cost of Services**

| | Total Cost of Services | | Net Revenue (Cost of Services) After Program Revenues | |
|---------------------------------|------------------------|---------------------|--|-----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| | 2015 | 2014 | 2015 | 2014 |
| GOVERNMENTAL ACTIVITIES | | | | |
| General Government | \$ 1,676,516 | \$ 1,762,425 | \$ (1,589,796) | \$ (1,685,552) |
| Public Safety | 1,884,340 | 1,797,678 | (1,508,062) | (1,293,352) |
| Public Works | 1,419,293 | 1,630,557 | (457,548) | (40,367) |
| Culture and Recreation | 245,948 | 250,231 | (192,543) | (188,102) |
| Interest and Fees on Debt | 725,910 | 871,666 | (570,946) | (722,756) |
| Total | <u>\$ 5,952,007</u> | <u>\$ 6,312,557</u> | <u>\$ (4,318,895)</u> | <u>\$ (3,930,129)</u> |
| BUSINESS-TYPE ACTIVITIES | | | | |
| Sewer | \$ 1,427,426 | \$ 1,339,394 | \$ 78,941 | \$ 156,336 |
| Liquor Store | 2,145,184 | 2,063,836 | 213,071 | 200,635 |
| Storm Sewer Utility | 452,507 | 470,083 | (151,067) | (171,048) |
| Total | <u>\$ 4,025,117</u> | <u>\$ 3,873,313</u> | <u>\$ 140,945</u> | <u>\$ 185,923</u> |

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL

Governmental Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$6,539,917.

Revenues for the City's governmental funds were \$7,830,002, while total expenditures were \$7,520,887. Revenues and expenditures decreased \$436,370 and \$916,086, respectively.

The General Fund's fund balance increased \$145,821 from the prior year. This is due primarily to revenues coming in over budget and expenditures being under budget.

The Debt Service Fund's fund balance decreased \$2,687,232 due to 2013A advance refunding & scheduled pay-off of the 2005 bond in February 2015 as allowed.

The Capital Projects Fund's fund balance increased \$834,808, due primarily to a decrease in expenditures of \$683,575.

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL (CONTINUED)

Business-Type Funds

Net position in the Sewer Fund decreased 280,604. This decreased is primarily due to the depreciation expenses.

Net position in the Municipal Liquor Store Fund increased \$73,214. This is due to having consistent revenues and expenses from the previous year.

Net position in the Storm Sewer Utility Fund decreased \$193,519. This is primarily due to the depreciation expense.

General Fund

The General Fund includes the primary operations of the City in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund Revenues:

**Table A-4
General Fund Revenues**

| Fund | Year Ended | | Change |
|-----------------------------|----------------------|----------------------|------------------------|
| | December 31, 2015 | December 31, 2014 | Increase (Decrease) |
| Taxes | \$ 1,977,700 | \$ 1,991,902 | \$ (14,202) |
| Tax Increments | 87,879 | 66,121 | 21,758 |
| Special Assessments | 2,269 | 2,521 | (252) |
| Licenses and Permits | 207,278 | 161,273 | 46,005 |
| Intergovernmental | 1,021,606 | 936,930 | 84,676 |
| Charges for Services | 115,256 | 96,176 | 19,080 |
| Fines and Forfeits | 21,564 | 17,980 | 3,584 |
| Interest | 15,412 | 25,839 | (10,427) |
| Refunds and Reimbursements | 66,546 | 94,634 | (28,088) |
| Contributions and Donations | 2,500 | - | 2,500 |
| Miscellaneous and Other | 4,980 | 3,516 | 1,464 |
| Total General Fund Revenues | <u>\$ 3,522,990</u> | <u>\$ 3,396,892</u> | <u>\$ 126,098</u> |

Revenues in the General Fund increased \$126,098 from the previous year. The primary reason for the increase is due to the increase in intergovernmental revenues.

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL (CONTINUED)

General Fund (Continued)

The following schedule presents a summary of General Fund Expenditures:

**Table A-5
General Fund Expenditures**

| | Year Ended | | Change |
|------------------------|----------------------|----------------------|------------------------|
| | December 31, 2015 | December 31, 2014 | Increase (Decrease) |
| General Government | \$ 752,093 | \$ 717,182 | \$ 34,911 |
| Public Safety | 1,738,561 | 1,697,234 | 41,327 |
| Highway and Streets | 708,575 | 749,652 | (41,077) |
| Culture and Recreation | 192,172 | 204,032 | (11,860) |
| Total Expenditures | <u>\$ 3,391,401</u> | <u>\$ 3,368,100</u> | <u>\$ 23,301</u> |

The General Fund's expenditures increased \$23,301 or .69% from 2014. This is due primarily to an increase in wages from the prior year.

General Fund Budgetary Highlights

In May of the current year, the City did make minor revisions to the annual operating budget.

- Actual revenues were \$114,248 more than expected. This is primarily due to more than expected tax increments, intergovernmental revenues, charges for services, and refunds and reimbursements.
- The actual expenditures were \$186,361 less than budget. This is primarily due to the City's prudent spending.

CONSTRUCTION PROJECTS AND DEBT SERVICE

Tax revenues, special assessments, and charges for services are used to fund the bond payments for all previous bond issues. The City issued the 2013A GO Improvement Refunding Bonds in 2013 to advance refund series 2003B, 2004B, and 2005A. The 2005A and 2009C were both paid off as of December 31, 2014, and the 2005A bond was paid off in 2015.

The City had one project that was started in the current year for a street project that was completed during the current year. No other projects are outstanding at December 31, 2015.

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

CAPITAL ASSETS

By the end of 2015, the City had invested approximately \$55,324,000 (net of accumulated depreciation) in a broad range of capital assets, including buildings, improvements, equipment, and infrastructure (see Table A-6). (More detailed information about capital assets can be found in Note 4.A.4 to the financial statements). Total depreciation expense for the year was \$1,883,630 (including the enterprise funds).

**Table A-6
The City's Capital Assets**

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Land | \$ 8,279,742 | \$ 8,279,742 | \$ 354,454 | \$ 354,454 | \$ 8,634,196 | \$ 8,634,196 |
| Buildings and Improvements | 3,422,319 | 3,422,319 | 14,347,246 | 14,347,246 | 17,769,565 | 17,769,565 |
| Infrastructure | 28,207,386 | 27,968,890 | - | - | 28,207,386 | 27,968,890 |
| Machinery and Equipment | 1,866,462 | 1,866,462 | 221,043 | 225,077 | 2,087,505 | 2,091,539 |
| Vehicles | 2,534,672 | 2,465,197 | - | - | 2,534,672 | 2,465,197 |
| Distribution and Collection System | - | - | 20,556,508 | 20,556,508 | 20,556,508 | 20,556,508 |
| Less: Accumulated Depreciation | (12,832,697) | (11,822,135) | (11,632,986) | (10,792,384) | (24,465,683) | (22,614,519) |
| Total | \$ 31,477,884 | \$ 32,180,475 | \$ 23,846,265 | \$ 24,690,901 | \$ 55,324,149 | \$ 56,871,376 |

LONG-TERM LIABILITIES

At year-end, the City had approximately \$31,705,000 in long-term liabilities outstanding.

- The City's governmental activities and business-type activities net long-term debt decreased \$4,986,545, and is due to paying off bonds and other regular bond payments.

**Table A-7
The City's Long-Term Liabilities**

| | 2015 | 2014 |
|--|----------------------|----------------------|
| GOVERNMENTAL ACTIVITIES | | |
| General Obligation Bonds | \$ 1,560,000 | \$ 1,750,000 |
| G.O. Improvement Bonds | 8,700,000 | 12,635,000 |
| Tax Increment Bonds | 5,815,000 | 6,030,000 |
| Revenue Bonds (EDA) | 4,390,000 | 4,540,000 |
| Promissory Note | 124,713 | 221,217 |
| Equipment Certificates of Indebtedness | 44,100 | 58,800 |
| Net Bond Premium (Discount) | (22,623) | (20,302) |
| Compensated Absences | 164,833 | 164,632 |
| Total Governmental Activities | 20,776,023 | 25,379,347 |
| BUSINESS-TYPE ACTIVITIES | | |
| General Obligation Bonds | 10,855,000 | 11,230,000 |
| Compensated Absences Payable | 48,939 | 53,981 |
| Bond Premium | 25,440 | 28,619 |
| Total Business-Type Activities | 10,929,379 | 11,312,600 |
| Total City-Wide Debt | \$ 31,705,402 | \$ 36,691,947 |

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FACTORS BEARING ON THE CITY'S FUTURE

The City's EDA owns property for sale including housing, commercial, and industrial land. The sale of these properties will have a very positive impact on the City's financial picture by reducing debt, increasing tax base, and providing jobs within the community.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Richard Hill, Finance Director, PO Box 910, North Branch, Minnesota 55056.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2015

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|---------------|-------------------------------|
| | Governmental Activities | Business-Type Activities | Total | Water and Light Commission |
| ASSETS | | | | |
| Cash and Investments | \$ 5,389,042 | \$ 1,414,930 | \$ 6,803,972 | \$ 638,085 |
| Receivables | | | | |
| Taxes | 214,651 | 328 | 214,979 | - |
| Accounts | 386,029 | - | 386,029 | 761,491 |
| Special Assessments | 5,049,043 | 76,489 | 5,125,532 | - |
| Accrued Interest | 5,478 | - | 5,478 | - |
| Due from Other Governments | 17,830 | - | 17,830 | - |
| Due from Component Unit | 6,850 | 309,467 | 316,317 | - |
| Due from Primary Government | - | - | - | 91,399 |
| Inventory | - | 306,968 | 306,968 | 231,240 |
| Prepaid Items | 95,754 | 36,266 | 132,020 | 8,151 |
| Long-Term Receivables | 17,202 | - | 17,202 | - |
| Land Held for Resale | 745,000 | - | 745,000 | - |
| Restricted Assets | | | | |
| Cash and Investments | - | - | - | 2,701,353 |
| Net Pension Asset | 63,694 | - | 63,694 | - |
| Capital Assets | | | | |
| Land and Construction In Progress | 8,279,742 | 354,454 | 8,634,196 | 98,930 |
| Other Capital Assets, Net of Depreciation | 23,198,142 | 23,491,811 | 46,689,953 | 23,935,796 |
| Total Assets | 43,468,457 | 25,990,713 | 69,459,170 | 28,466,445 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Refunding Loss on Bonds | 115,640 | - | 115,640 | - |
| Pension Related | 362,803 | 55,773 | 418,576 | 74,152 |
| Total Deferred Outflows of Resources | 478,443 | 55,773 | 534,216 | 74,152 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts Payable | 105,153 | 24,806 | 129,959 | 187,991 |
| Accrued Liabilities | 19,245 | 8,728 | 27,973 | 18,007 |
| Customer Deposits | 35,143 | - | 35,143 | 105,849 |
| Rate Stabilization Reserve | - | - | - | 147,880 |
| Accrued Interest Payable | 308,118 | 123,861 | 431,979 | 250,576 |
| Due to Other Governments | 1,003 | 21,845 | 22,848 | - |
| Due to Primary Government | - | - | - | 316,317 |
| Due to Component Unit | 5,188 | 86,211 | 91,399 | - |
| Unearned Revenue | 15,000 | - | 15,000 | - |
| Long-Term Liabilities | | | | |
| Net Pension Liability | 1,377,645 | 388,844 | 1,766,489 | 538,982 |
| Due Within One Year | 2,151,491 | 635,397 | 2,786,888 | 995,000 |
| Due in More than One Year, Net of Unamortized Discount/Premium | 18,624,532 | 10,293,982 | 28,918,514 | 14,330,376 |
| Total Liabilities | 22,642,518 | 11,583,674 | 34,226,192 | 16,890,978 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension Related | 192,058 | 41,272 | 233,330 | 58,882 |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 10,982,334 | 12,965,825 | 23,948,159 | 8,704,726 |
| Restricted For: | | | | |
| Debt Service | 8,679,882 | - | 8,679,882 | - |
| Redemption and Replacement Funding | - | - | - | 2,450,777 |
| Economic Development | 354,502 | - | 354,502 | - |
| Tax Increment Financing | 48,371 | - | 48,371 | - |
| Capital Outlay | 62,681 | - | 62,681 | - |
| Unrestricted | 984,554 | 1,455,715 | 2,440,269 | 435,234 |
| Total Net Position | \$ 21,112,324 | \$ 14,421,540 | \$ 35,533,864 | \$ 11,590,737 |

See accompanying Notes to the Financial Statements.

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

| Functions/Programs | Expenses | Program Revenues | | |
|--------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental Activities | | | | |
| General Government | \$ 1,676,516 | \$ 28,266 | \$ 58,454 | \$ - |
| Public Safety | 1,884,340 | 130,811 | 195,733 | 49,734 |
| Public Works | 1,419,293 | 219,626 | 500 | 741,619 |
| Culture and Recreation | 245,948 | - | 53,405 | - |
| Debt Service | 725,910 | - | 154,964 | - |
| Total Governmental Activities | <u>5,952,007</u> | <u>378,703</u> | <u>463,056</u> | <u>791,353</u> |
| Business-Type Activities | | | | |
| Sewer | 1,427,426 | 1,506,367 | - | - |
| Liquor | 2,145,184 | 2,358,255 | - | - |
| Storm Sewer Utility | 452,507 | 301,440 | - | - |
| Total Business-Type Activities | <u>4,025,117</u> | <u>4,166,062</u> | <u>-</u> | <u>-</u> |
| Total Primary Government | <u>\$ 9,977,124</u> | <u>\$ 4,544,765</u> | <u>\$ 463,056</u> | <u>\$ 791,353</u> |
| Component Unit | | | | |
| Water and Light Commission | <u>\$ 5,324,848</u> | <u>\$ 5,839,337</u> | <u>\$ -</u> | <u>\$ 44,738</u> |

General Revenues

- Taxes
 - Property Taxes, Levied for General Purpose
 - Tax Increment Financing
- Grants and Contributions not Restricted to Specific Programs
- Unrestricted Investment Earnings
- Miscellaneous
- Gain on Sale of Capital Assets
- Transfers
 - Total General Revenues and Transfers
 - Change in Net Position
- Net Position - Beginning of Year
- Change in Accounting Principle
- Net Position - Beginning of Year, as Restated
- Net Position - End of Year

Net (Expense) Revenue and Changes in Net Position

| Primary Government | | | Component Unit |
|-------------------------|--------------------------|----------------------|----------------------------|
| Governmental Activities | Business-Type Activities | Total | Water and Light Commission |
| \$ (1,589,796) | \$ - | \$ (1,589,796) | \$ - |
| (1,508,062) | - | (1,508,062) | - |
| (457,548) | - | (457,548) | - |
| (192,543) | - | (192,543) | - |
| (570,946) | - | (570,946) | - |
| <u>(4,318,895)</u> | <u>-</u> | <u>(4,318,895)</u> | <u>-</u> |
| - | 78,941 | 78,941 | - |
| - | 213,071 | 213,071 | - |
| - | (151,067) | (151,067) | - |
| <u>-</u> | <u>140,945</u> | <u>140,945</u> | <u>-</u> |
| <u>(4,318,895)</u> | <u>140,945</u> | <u>(4,177,950)</u> | <u>-</u> |
| - | - | - | 559,227 |
| 4,204,024 | 49,820 | 4,253,844 | - |
| 664,551 | - | 664,551 | - |
| 624,123 | - | 624,123 | - |
| 28,972 | 1,250 | 30,222 | 5,626 |
| 29,912 | - | 29,912 | 29,254 |
| 16,500 | - | 16,500 | - |
| 592,924 | (592,924) | - | - |
| <u>6,161,006</u> | <u>(541,854)</u> | <u>5,619,152</u> | <u>34,880</u> |
| 1,842,111 | (400,909) | 1,441,202 | 594,107 |
| 20,428,089 | 15,187,446 | 35,615,535 | 11,505,081 |
| (1,157,876) | (364,997) | (1,522,873) | (508,451) |
| <u>19,270,213</u> | <u>14,822,449</u> | <u>34,092,662</u> | <u>10,996,630</u> |
| <u>\$ 21,112,324</u> | <u>\$ 14,421,540</u> | <u>\$ 35,533,864</u> | <u>\$ 11,590,737</u> |

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FUND FINANCIAL STATEMENTS

**CITY OF NORTH BRANCH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

| | GENERAL FUND | DEBT SERVICE FUND | CAPITAL PROJECTS FUND | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|---------------------|----------------------|-----------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and Investments | \$ 574,002 | \$ 4,074,457 | \$ 176,560 | \$ 564,023 | \$ 5,389,042 |
| Receivables | | | | | |
| Accounts | 34,087 | - | 351,942 | - | 386,029 |
| Taxes | 148,943 | 9,460 | 52,463 | 3,785 | 214,651 |
| Special Assessments | 28,657 | 4,898,605 | 121,781 | - | 5,049,043 |
| Accrued Interest | - | 5,478 | - | - | 5,478 |
| Loans | - | - | - | 17,202 | 17,202 |
| Due From Other Funds | 2,118,655 | - | - | - | 2,118,655 |
| Due From Other Governments | 5,829 | - | - | 12,001 | 17,830 |
| Due From Component Unit | 6,850 | - | - | - | 6,850 |
| Prepaid Items | 93,974 | - | 944 | 836 | 95,754 |
| Land Held for Resale | - | - | 745,000 | - | 745,000 |
| Total Assets | <u>\$ 3,010,997</u> | <u>\$ 8,988,000</u> | <u>\$ 1,448,690</u> | <u>\$ 597,847</u> | <u>\$ 14,045,534</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$ 36,970 | \$ - | \$ 60,919 | \$ 7,264 | \$ 105,153 |
| Accrued Liabilities | 18,502 | - | - | 723 | 19,225 |
| Other Liabilities | 35,143 | - | - | - | 35,143 |
| Due to Other Funds | - | - | 2,099,972 | 18,683 | 2,118,655 |
| Due to Component Unit | 5,188 | - | - | - | 5,188 |
| Total Liabilities | 111,826 | - | 2,160,891 | 26,670 | 2,299,387 |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenue on Property Taxes | 108,320 | 6,156 | 40,272 | 2,830 | 157,578 |
| Unavailable Revenue on Special Assessments | 28,266 | 4,898,605 | 121,781 | - | 5,048,652 |
| Total Deferred Inflows of Resources | 136,586 | 4,904,761 | 162,053 | 2,830 | 5,206,230 |
| Fund Balances (Deficits) | | | | | |
| Nonspendable | | | | | |
| Prepayments | 93,974 | - | 944 | 836 | 95,754 |
| Restricted | - | 4,083,239 | - | 464,300 | 4,547,539 |
| Committed | - | - | - | 121,894 | 121,894 |
| Unassigned | 2,668,611 | - | (875,198) | (18,683) | 1,774,730 |
| Total Fund Balances (Deficits) | 2,762,585 | 4,083,239 | (874,254) | 568,347 | 6,539,917 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 3,010,997</u> | <u>\$ 8,988,000</u> | <u>\$ 1,448,690</u> | <u>\$ 597,847</u> | <u>\$ 14,045,534</u> |

See accompanying Notes to Financial Statements

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**CITY OF NORTH BRANCH, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS **\$ 6,539,917**

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. 31,477,884

The City's net pension asset and liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:

| | | | |
|--|----|----------------|-------------|
| Net Pension Asset | \$ | 63,694 | |
| Net Pension Liability | | (1,377,645) | |
| Deferred Inflows of Resources - Pension Related | | (192,058) | |
| Deferred Outflows of Resources - Pension Related | | <u>362,803</u> | (1,143,206) |

Some of the City's property taxes and special assessments will be collected after year end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as unavailable revenue in the governmental funds. 5,206,230

The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds. 115,640

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net position. (308,118)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

| | | | |
|----------------------------------|--|------------------|--------------|
| Bonds Payable | | (20,465,000) | |
| Equipment Certificate Payable | | (44,100) | |
| Unamortized Premiums (Discounts) | | 22,623 | |
| Compensated Absences Payable | | (164,833) | |
| Notes Payable | | <u>(124,713)</u> | (20,776,023) |

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 21,112,324**

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015**

| | GENERAL FUND | DEBT SERVICE FUND | CAPITAL PROJECTS FUND | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|---------------------|-------------------------|-----------------------------|-----------------------------------|--------------------------------|
| REVENUES | | | | | |
| Taxes | \$ 1,977,700 | \$ 1,140,230 | \$ 1,060,596 | \$ 72,224 | \$ 4,250,750 |
| Tax Increments | 87,879 | 274,182 | - | 268,314 | 630,375 |
| Tax Abatement | - | - | 8,076 | 26,944 | 35,020 |
| Licenses and Permits | 207,278 | - | - | - | 207,278 |
| Intergovernmental | 1,021,606 | 154,964 | 306,856 | 323 | 1,483,749 |
| Charges for Services | 115,256 | - | - | - | 115,256 |
| Fines and Forfeits | 21,564 | - | 2,880 | - | 24,444 |
| Special Assessments | 2,269 | 838,410 | 30,296 | - | 870,975 |
| Interest | 15,412 | 11,624 | 301 | 1,635 | 28,972 |
| Refunds and Reimbursements | 66,546 | - | 13,132 | - | 79,678 |
| Contributions and Donations | 2,500 | - | - | 45,500 | 48,000 |
| Miscellaneous | 4,980 | - | - | 50,525 | 55,505 |
| Total Revenues | <u>3,522,990</u> | <u>2,419,410</u> | <u>1,422,137</u> | <u>465,465</u> | <u>7,830,002</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| General Government | 752,093 | - | 564,926 | 99,651 | 1,416,670 |
| Public Safety | 1,738,561 | - | - | - | 1,738,561 |
| Highways and Streets | 708,575 | - | 238,254 | - | 946,829 |
| Culture and Recreation | 192,172 | - | 1,496 | - | 193,668 |
| Miscellaneous | - | - | - | 36,443 | 36,443 |
| Capital Outlay | - | - | 7,470 | - | 7,470 |
| TIF and Tax Abatement Payments | - | - | - | 170,729 | 170,729 |
| Debt Service | | | | | |
| Principal | - | 2,151,204 | - | - | 2,151,204 |
| Fiscal Agent Fees | - | 21,291 | - | - | 21,291 |
| Interest | - | 826,917 | 11,105 | - | 838,022 |
| Total Expenditures | <u>3,391,401</u> | <u>2,999,412</u> | <u>823,251</u> | <u>306,823</u> | <u>7,520,887</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 131,589 | (580,002) | 598,886 | 158,642 | 309,115 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In | 140,000 | 577,796 | 235,922 | 144,500 | 1,098,218 |
| Transfers Out | (125,768) | (235,026) | - | (144,500) | (505,294) |
| Payment on Refunded Bonds | - | (2,450,000) | - | - | (2,450,000) |
| Total Other Financing Sources (Uses) | <u>14,232</u> | <u>(2,107,230)</u> | <u>235,922</u> | <u>-</u> | <u>(1,857,076)</u> |
| NET CHANGE IN FUND BALANCES | 145,821 | (2,687,232) | 834,808 | 158,642 | (1,547,961) |
| Fund Balances (Deficit) - Beginning of Year | <u>2,616,764</u> | <u>6,770,471</u> | <u>(1,709,062)</u> | <u>409,705</u> | <u>8,087,878</u> |
| FUND BALANCES (DEFICIT) - END OF YEAR | <u>\$ 2,762,585</u> | <u>\$ 4,083,239</u> | <u>\$ (874,254)</u> | <u>\$ 568,347</u> | <u>\$ 6,539,917</u> |

See accompanying Notes to Financial Statements

**CITY OF NORTH BRANCH, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (1,547,961)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

| | | |
|----------------------|--------------------|-----------|
| Capital Outlay | \$ 326,403 | |
| Depreciation Expense | <u>(1,028,994)</u> | (702,591) |

Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.

14,670

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

| | | |
|---|--------------|-----------|
| Payment of Promissory Note | 96,504 | |
| Repayment of Debt Principal | 4,490,000 | |
| Change in Accrued Interest Expense | 65,086 | |
| Payment on Equipment Certificate | 14,700 | |
| Refunding Loss | 54,891 | |
| Amortization of Bond Premium (Discount) | <u>2,321</u> | 4,723,502 |

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Change in Compensated Absences (201)

Delinquent property taxes and special assessments receivable will be collected subsequent to year end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred inflows of resources in the governmental funds.

| | | |
|---|------------------|------------------|
| Deferred Inflows of Resources - December 31, 2014 | (5,851,538) | |
| Deferred Inflows of Resources - December 31, 2015 | <u>5,206,230</u> | <u>(645,308)</u> |

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,842,111

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | TOTALS |
|--|---|-----------------------------------|--------------------------------|--------------|
| | SEWER FUND | MUNICIPAL LIQUOR STORE FUND | STORM SEWER UTILITY FUND | |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | |
| CURRENT ASSETS | | | | |
| Cash and Investments | \$ 865,166 | \$ 158,011 | \$ 391,753 | \$ 1,414,930 |
| Receivables | | | | |
| Taxes | 328 | - | - | 328 |
| Certified Delinquent Utility Bills | 65,181 | - | 11,308 | 76,489 |
| Due from Component Units | 275,455 | - | 34,012 | 309,467 |
| Inventories | - | 306,968 | - | 306,968 |
| Prepaid Items | 27,668 | 6,518 | 2,080 | 36,266 |
| Total Current Assets | 1,233,798 | 471,497 | 439,153 | 2,144,448 |
| NONCURRENT ASSETS | | | | |
| Capital Assets | | | | |
| Land | 40,000 | 28,000 | 286,454 | 354,454 |
| Building and Improvements | 13,665,325 | 681,921 | - | 14,347,246 |
| Machinery and Equipment | 196,794 | 13,415 | 10,834 | 221,043 |
| Infrastructure | 11,433,908 | - | 9,122,600 | 20,556,508 |
| | 25,336,027 | 723,336 | 9,419,888 | 35,479,251 |
| Less: Accumulated Depreciation | (8,117,870) | (279,222) | (3,235,894) | (11,632,986) |
| Net Capital Assets | 17,218,157 | 444,114 | 6,183,994 | 23,846,265 |
| Total Assets | 18,451,955 | 915,611 | 6,623,147 | 25,990,713 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension Related | 16,324 | 24,486 | 14,963 | 55,773 |

See accompanying Notes to Financial Statements.

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
DECEMBER 31, 2015**

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | |
|---|---|-------------------------------------|--------------------------------|----------------------|
| | SEWER FUND | MUNICIPAL LIQUOR STORE LIQUOR | STORM SEWER UTILITY FUND | TOTALS |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts Payable | \$ 1,482 | \$ 22,544 | \$ 780 | \$ 24,806 |
| Salaries and Wages Payable | 2,458 | 3,985 | 2,285 | 8,728 |
| Due to Other Governments | - | 21,845 | - | 21,845 |
| Due to Component Unit | 86,211 | - | - | 86,211 |
| Accrued Interest Payable | 114,780 | 6,825 | 2,256 | 123,861 |
| Accrued Compensated Absences | 1,500 | 2,103 | 1,794 | 5,397 |
| Bonds Payable | 560,000 | 60,000 | 10,000 | 630,000 |
| Total Current Liabilities | <u>766,431</u> | <u>117,302</u> | <u>17,115</u> | <u>900,848</u> |
| LONG-TERM LIABILITIES | | | | |
| Net Pension Liability | 113,808 | 170,712 | 104,324 | 388,844 |
| Bonds Payable (Net of Unamortized Bond Discounts) | 9,930,440 | 200,000 | 120,000 | 10,250,440 |
| Accrued Compensated Absences | 12,102 | 16,966 | 14,474 | 43,542 |
| Total Long-Term Liabilities | <u>10,056,350</u> | <u>387,678</u> | <u>238,798</u> | <u>10,682,826</u> |
| Total Liabilities | <u>10,822,781</u> | <u>504,980</u> | <u>255,913</u> | <u>11,583,674</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension Related | 12,080 | 18,119 | 11,073 | 41,272 |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 6,727,717 | 184,114 | 6,053,994 | 12,965,825 |
| Unrestricted | 905,701 | 232,884 | 317,130 | 1,455,715 |
| Total Net Position | <u>\$ 7,633,418</u> | <u>\$ 416,998</u> | <u>\$ 6,371,124</u> | <u>\$ 14,421,540</u> |

See accompanying Notes to Financial Statements.

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CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | TOTALS |
|--|---|-----------------------------------|--------------------------------|----------------------|
| | SEWER FUND | MUNICIPAL LIQUOR STORE FUND | STORM SEWER UTILITY FUND | |
| OPERATING REVENUES | | | | |
| Sales | \$ - | \$ 2,358,255 | \$ - | \$ 2,358,255 |
| Costs of Goods Sold | - | (1,713,548) | - | (1,713,548) |
| Charges for Services | 1,506,367 | - | 301,440 | 1,807,807 |
| Total Gross Profit and Operating Revenues | <u>1,506,367</u> | <u>644,707</u> | <u>301,440</u> | <u>2,452,514</u> |
| OPERATING EXPENSES | | | | |
| Personal Services | 179,303 | 256,596 | 155,508 | 591,407 |
| Materials and Supplies | 31,087 | 21,893 | 2,573 | 55,553 |
| Contractual Services | 259,413 | 117,900 | 61,438 | 438,751 |
| Depreciation | 608,988 | 18,128 | 227,520 | 854,636 |
| Miscellaneous Expense | 41,656 | - | - | 41,656 |
| Total Operating Expenses | <u>1,120,447</u> | <u>414,517</u> | <u>447,039</u> | <u>1,982,003</u> |
| OPERATING INCOME (LOSS) | 385,920 | 230,190 | (145,599) | 470,511 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Property Taxes | 49,820 | - | - | 49,820 |
| Investment Earnings | 756 | 143 | 351 | 1,250 |
| Interest | (302,716) | (16,669) | (5,446) | (324,831) |
| Fiscal Agent Fees | (4,263) | (450) | (22) | (4,735) |
| Total Nonoperating Revenues (Expenses) | <u>(256,403)</u> | <u>(16,976)</u> | <u>(5,117)</u> | <u>(278,496)</u> |
| INCOME (LOSS) BEFORE TRANSFERS | 129,517 | 213,214 | (150,716) | 192,015 |
| TRANSFERS OUT | (410,121) | (140,000) | (42,803) | (592,924) |
| CHANGE IN NET POSITION | (280,604) | 73,214 | (193,519) | (400,909) |
| Net Position - Beginning of Year | 8,020,850 | 504,027 | 6,662,569 | 15,187,446 |
| Change in Accounting Principle | (106,828) | (160,243) | (97,926) | (364,997) |
| Net Position - Beginning of Year - as Restated | <u>7,914,022</u> | <u>343,784</u> | <u>6,564,643</u> | <u>14,822,449</u> |
| NET POSITION - END OF YEAR | <u>\$ 7,633,418</u> | <u>\$ 416,998</u> | <u>\$ 6,371,124</u> | <u>\$ 14,421,540</u> |

See accompanying Notes to Financial Statements.

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | TOTALS |
|--|---|-----------------------------------|--------------------------------|---------------------|
| | SEWER FUND | MUNICIPAL LIQUOR STORE FUND | STORM SEWER UTILITY FUND | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash Received from Customers | \$ 1,494,020 | \$ 2,358,255 | \$ 302,659 | \$ 4,154,934 |
| Cash Paid to Employees for Services | (189,906) | (264,807) | (159,579) | (614,292) |
| Cash Paid to Suppliers for Goods and Services | (305,387) | (1,864,719) | (66,456) | (2,236,562) |
| Net Cash Provided (Used) by Operating Activities | 998,727 | 228,729 | 76,624 | 1,304,080 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Decrease (Increase) in Due From Other Funds | 49,492 | - | - | 49,492 |
| Transfers to Other Funds | (410,121) | (140,000) | (42,803) | (592,924) |
| Net Cash Provided (Used) by Noncapital Financing Activities | (360,629) | (140,000) | (42,803) | (543,432) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisition and Construction of Capital Assets | (6,000) | - | (4,000) | (10,000) |
| Special Assessments | 39,790 | - | (383) | 39,407 |
| Interest Paid | (314,018) | (18,563) | (5,625) | (338,206) |
| Principal Payments on Long-Term Debt | (310,000) | (55,000) | (10,000) | (375,000) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (590,228) | (73,563) | (20,008) | (683,799) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest Received | 756 | 143 | 351 | 1,250 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 48,626 | 15,309 | 14,164 | 78,099 |
| Cash and Cash Equivalents - Beginning of Year | 816,540 | 142,702 | 377,589 | 1,336,831 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 865,166</u> | <u>\$ 158,011</u> | <u>\$ 391,753</u> | <u>\$ 1,414,930</u> |

See accompanying Notes to Financial Statements.

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | |
|---|---|-----------------------------------|--------------------------------|---------------------|
| | SEWER FUND | MUNICIPAL LIQUOR STORE FUND | STORM SEWER UTILITY FUND | TOTALS |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Operating Income (Loss) | \$ 385,920 | \$ 230,190 | \$ (145,599) | \$ 470,511 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | | |
| Depreciation | 608,988 | 18,128 | 227,520 | 854,636 |
| (Increase) Decrease in Assets and Deferred Outflows of Resources: | | | | |
| Due from Component Units | (12,347) | - | 1,219 | (11,128) |
| Inventories | - | (25,157) | 199 | (24,958) |
| Prepayments | 1,193 | (395) | - | 798 |
| Deferred Outflows - Pension | (16,324) | (24,486) | (14,963) | (55,773) |
| Increase (Decrease) in Liabilities and Deferred Inflows of Resources: | | | | |
| Accounts Payable | (4,874) | 8,083 | (5,152) | (1,943) |
| Accrued Liabilities | (5,722) | (7,874) | (4,245) | (17,841) |
| Accrued Compensated Absences | (4,881) | (337) | 174 | (5,044) |
| Due to Other Governments | - | 1,989 | - | 1,989 |
| Due to Component Units | 27,714 | - | - | 27,714 |
| Deferred Inflows - Pension | 12,080 | 18,119 | 11,073 | 41,272 |
| Net Pension Liability | 6,980 | 10,469 | 6,398 | 23,847 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 998,727</u> | <u>\$ 228,729</u> | <u>\$ 76,624</u> | <u>\$ 1,304,080</u> |

See accompanying Notes to Financial Statements.

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**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of North Branch (the City) was incorporated under the laws of the State of Minnesota and operates under the State of Minnesota Statutory Plan A form of government. The governing body consists of a five member City council elected by voters of the City. The financial reporting entity consists of the City (Primary Government) and the component unit (legally separate organization) for which the primary government is financially accountable. The component unit discussed below, is included in the City's reporting entity, because of the significance of the operational or financial relationship with the City.

The City of North Branch's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

Component Units

Component units are legally separate entities for which the City (Primary Government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the Primary Government misleading. The criteria used to determine if the Primary Government is financially accountable for a component unit include whether or not the Primary Government appoints a voting majority of an organization's governing body and has the ability to impose its will on the governing body; or there is a specific financial benefit or to impose a specific financial burden on the Primary Government.

The financial statements of the City include the City of North Branch Economic Development Authority (EDA). The EDA is an entity legally separate from the City. The City reports the EDA as blended component unit in accordance with GASB 14, as amended by GASB 61 because the services provided by the EDA are financing services provided solely to the primary government (the City).

The EDA's governing board is appointed by the City Council. The City Council has the ability to approve or modify the EDA's budget and to veto or overrule other decisions of the EDA's governing body. The City also guarantees the general obligation debt of the EDA. The City does not prepare separate financial statements for the EDA.

The component unit column in the government-wide financial statements is the financial data of the North Branch Municipal Water and Light Commission (Commission) which is an entity legally separate from the City. In accordance with GASB 14, the Commission is reported as a discretely presented component unit because it can significantly influence the programs, projects, activities, and level of service performed by the Commission. It does not meet the criteria of GASB 14 for inclusion in the City's financial statements as a blended component unit.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

The Commission's governing board members are appointed by the City Council. Complete financial statements for the Commission are prepared and are on file with the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the primary government and its component unit. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. The City has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Fund – The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment.

The City reports the following major proprietary funds:

Sewer Fund – The Sewer Fund provides for the operation and maintenance of the wastewater collection and treatment facilities. The fund charges user fees to those served by the system.

Municipal Liquor Store Fund – The Municipal Liquor Store Fund promotes moderation and control in the sale and use of alcohol beverages while simultaneously generating income for the community.

Storm Sewer Utility Fund – The Storm Sewer Utility Fund provides for the maintenance to the City's storm sewer system. The fund charges user fees to those served by the system.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes other charges between the various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Cash and Investments (Including Cash Equivalents)

Cash balances from all funds (including cash equivalents) are invested to the extent available in various securities as authorized by Minnesota Statutes. Investment earnings are recorded in the individual fund carrying the investment. Investments are stated at fair value. Cash and investments of the Commission component unit are maintained and invested separately.

Cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less. Cash and cash equivalents consist of checking and saving certificate accounts, cash on hand, and money market savings accounts.

For the purpose of the statement of cash flows of the proprietary fund types, the City considers all cash and investments under the classification of current assets to be cash and cash equivalents.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds", "due to other funds", "interfund receivable" or "interfund payable" on the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

3. Accounts Receivable

Property taxes and special assessment receivables have been reported net of estimated uncollectible accounts. Because utility bills are considered liens on property, no estimated uncollectible amounts are established. Uncollectible amounts are not material for other receivables and have not been reported.

4. Taxes Receivable

Taxes which remain unpaid are classified as delinquent taxes receivable. Delinquent taxes represent the past seven years of uncollected tax years. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the City in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Property Tax Collection Calendar

The City levies its property tax for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. The County is the collecting agency for the levy and then remits the collections to the City. All taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The county auditor make up the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The county auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The county auditor turns over a list of taxes and special assessments to be collected on each parcel of property to the county treasurer in January of each year. Property owners are required to pay one-half of their real estate taxes by May 15 and the balance by October 15.

Within 30 days after the May settlement, the county treasurer is required to pay 70 percent of the estimated collections of taxes and special assessments to the City treasurer. The county treasurer must pay the balance to the City treasurer within 60 days after settlement, provided that after 45 days interest begins to accrue.

Within ten business days after November 15, the county treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

5. Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with Minnesota Statutes. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Any annual installments remaining unpaid as of November 30th of each year are certified to the County for collection with property taxes during the following year. Property owners are allowed to prepay future installments without interest or prepayment penalties.

In the governmental fund financial statements, special assessment levies are recorded as a receivable and as unavailable revenue at the time of the levy. Unavailable revenue is recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

Delinquent special assessments represent the past seven years of uncollected special assessments that have not been collected within 60 days of year-end.

6. Inventory

The costs of inventory items are recognized as expenditures in governmental funds when purchased. These funds do not maintain material amounts of inventories. The costs of inventory items in the proprietary funds are valued at cost, which approximates market, using the first in/first out (FIFO) method.

7. Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

8. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), and intangible assets such as easements and computer software, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of one year and an initial, individual cost of more than \$75,000 for easements purchased by governmental funds, \$20,000 for easements purchased by the Sewer Fund, \$7,500 for easements purchased by the Storm Sewer Fund, \$25,000 for software, \$5,000 for assets purchased with federal funds, and \$15,000 for all other assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

8. Capital Assets (Continued)

Pursuant to GASB Statement 34, the City has elected to record general infrastructure assets acquired since 1980. These assets are reported at historical cost. Pursuant to GASB Statement 51, the City elected to report intangible assets acquired since 2010. The City has not acquired any intangible assets since the implementation of GASB 51.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For the year ended December 31, 2015, no interest was capitalized in connection with construction in progress.

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

| Assets | Years |
|-------------------------------------|---------|
| Buildings and Improvements | 20 - 40 |
| Machinery, Equipment and Software | 5 - 15 |
| Vehicles | 5 - 15 |
| Infrastructure | 20 - 40 |
| Proprietary Funds: | |
| Buildings and Improvements | 20 - 50 |
| Machinery, Equipment and Software | 5 - 30 |
| Distribution and Collection Systems | 20 - 50 |

9. Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs. The City reports two types of deferred outflows in the statement of net position. The first type is related to the loss related to the refunding bonds and the second type is related to pension expense. You can find more detailed information about pension related deferred outflows of resources in Note 5 to the financial statements.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

10. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All PTO benefits that are vested as PTO is accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of Statement of Governmental Accounting Standards No. 16, *Accounting for Compensated Absence*, no liability is recorded for nonvesting accumulating rights to receive PTO benefits.

11. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

12. Fund Balance and Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

12. Fund Balance and Net Position (Continued)

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance represents amounts not available for appropriation. Restricted fund balance represents amounts available for appropriation but intended for a specific use and legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the council. Pursuant to the City's Fund Balance Policy, the City Administrator and/or Finance Director have been authorized to assign fund balance that reflects the City's intended use of those funds. Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. When restricted and unrestricted fund balance is available for use, it is the City's policy to first use restricted fund balance. When committed, assigned, and unassigned fund balance is available for use, it is the City's policy to use committed, assigned, and finally unassigned fund balance.

The City Council has formally adopted a policy regarding the minimum unassigned fund balance for the General Fund. The most significant revenue source of the General Fund is property taxes. This revenue source is received in two installments during the year – July and December. As such, it is the City's goal to begin each fiscal year with sufficient working capital to fund operations between each semi-annual receipt of property taxes.

The City's fund balance policy states "the City will strive to maintain an unassigned minimum fund balance in the General Fund in the range of 42-55% of the subsequent year's budgeted expenditures." At December 31, 2015, the unassigned fund balance of the General Fund was 78.7% of the 2015 budgeted General Fund expenditures.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

13. Deferred Inflows of Resources

The City's governmental activities and governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position of fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The City has two types of items which occurs relating to revenue recognition: The first type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. The second type relates to pension liabilities as described in Note 5 to the financial statements.

14. Pension

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

15. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted for the General Fund. Budget appropriations lapse at the end of the year. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The City Administrator is authorized to transfer appropriations within any department budget. Additional interdepartmental or interfund appropriations and deletions are or may be authorized by the City Council with fund (contingency) reserves or additional revenues. The legal level of control is the fund level. The City Council may authorize transfer of budgeted amounts between City funds.

Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds.

B. Deficit Fund Equity

The following funds have a deficit fund balance at December 31, 2015:

| | | |
|-----------------------|----|---------|
| Oakview Land Trust | \$ | 18,683 |
| Capital Projects Fund | | 874,254 |

The City plans to eliminate these deficits through future TIF revenues, tax abatement revenues, future land sales, assessments or transfers.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 COMPONENTS OF FUND BALANCE

At December 31, 2015, portions of the City's fund balance are not available for appropriation due to legal restrictions (Restricted), City Council action (Committed), policy and/or intent (Assigned). The following is a summary of the components of fund balance:

| | GENERAL FUND | NONMAJOR GOVERNMENTAL FUNDS | DEBT SERVICE FUND | CAPITAL PROJECTS FUND | TOTAL GOVERNMENTAL FUNDS |
|----------------------|---------------------|-----------------------------------|----------------------|-----------------------------|--------------------------------|
| Nonspendable | | | | | |
| Prepayments | \$ 93,974 | \$ 836 | \$ - | \$ 944 | \$ 95,754 |
| Restricted | | | | | |
| Tax Increments | - | 47,117 | - | - | 47,117 |
| Debt Payments | - | - | 4,083,239 | - | 4,083,239 |
| Donor Purposes | - | 62,681 | - | - | 62,681 |
| Economic Development | - | 354,502 | - | - | 354,502 |
| Committed | | | | | |
| Economic Development | - | 39,049 | - | - | 39,049 |
| Communications | - | 82,845 | - | - | 82,845 |
| Unassigned | 2,668,611 | (18,683) | - | (875,198) | 1,774,730 |
| Total Fund Balance | <u>\$ 2,762,585</u> | <u>\$ 568,347</u> | <u>\$ 4,083,239</u> | <u>\$ (874,254)</u> | <u>\$ 6,539,917</u> |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the City maintains deposits at financial institutions which are authorized by the City Council.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The City's deposits in banks at December 31, 2015 were entirely covered by federal depository insurance or by pledged collateral held by the bank's agent in the City's name in amounts equal to at least 110% of the amount in excess of the federal depository insurance, as required by Minnesota Statutes.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments

The City's investment policy is to follow Minnesota Statutes as described below which reduces the City's exposure to credit, custodial credit, and interest rate risks:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements 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.

Interest Rate Risk – Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy requires the City to diversify its investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity. The policy also states the City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. Investments are categorized to give an indication of the level of interest rate risk assumed at year-end. Fair market values and maturities as of December 31, 2015 are as follows:

| Investment Type | Total Fair Value | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | More than 60 Months |
|------------------------------|---------------------|----------------------|--------------------|--------------------|------------------------|
| Money Market | \$ 265,658 | \$ 265,658 | \$ - | \$ - | \$ - |
| Federal Home Loan Mtg. Corp. | 33,124 | - | - | - | 33,124 |
| FNMA | 12,369 | - | - | 893 | 11,476 |
| WAMU- Mortgage | 460 | - | - | 460 | - |
| US Treasury Note | 432,689 | - | - | 432,689 | - |
| Total | <u>\$ 744,300</u> | <u>\$ 265,658</u> | <u>\$ -</u> | <u>\$ 434,042</u> | <u>\$ 44,600</u> |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two rating issued by nationally recognized statistical rating organizations. The City’s policy states the Finance Director is expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. To control market price risks, volatile investment instruments shall be avoided.

| Type | Credit Quality Rating | Amount |
|-----------------------------|--------------------------|-------------------|
| WAMU- Mortgage | AA+ | \$ 460 |
| Money Market | Not Rated | 265,659 |
| Federal Home Loan Mtg Corp. | AAA | 33,124 |
| FNMA | AAA | 12,369 |
| Total | | <u>\$ 311,612</u> |

Concentration of Credit Risk – The risk of loss attributed to the magnitude of the City’s investments in a single issuer. The City places no limit on the amount that may be invested in any one issuer.

Summary of cash, deposits and investments as of December 31, 2015 are as follows:

| | |
|----------------------------|---------------------|
| Cash on Hand | \$ 500 |
| Checking | 545,808 |
| Savings | 5,513,364 |
| Investments | 744,300 |
| Total Cash and Investments | <u>\$ 6,803,972</u> |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

Deposits and Investments consist of the following at December 31, 2015:

| | Balance |
|---|--------------|
| Cash and Investments - Governmental Funds | \$ 5,389,042 |
| Cash and Investments - Proprietary Funds | 1,414,930 |
| Cash and Investments - Component Unit | 638,084 |
| Total Cash and Cash Equivalents | \$ 7,442,056 |

3. Interfund Receivables, Payables, and Transfers

At December 31, 2015, due from/to other funds were as follows:

| Due To | Due From | Amount |
|--------------|-----------------------|--------------|
| General Fund | Nonmajor Funds: | |
| | Oakview Land Trust | \$ 18,683 |
| General Fund | Capital Projects Fund | 2,099,972 |
| Total | | \$ 2,118,655 |

The interfund receivables/payables noted above are related to the elimination of negative cash balances at year-end.

| Due To | Due From | Amount |
|--------------------|--------------------|------------|
| Component Unit | Primary Government | \$ 91,399 |
| Primary Government | Component Unit | 316,317 |
| Total | | \$ 407,716 |

The interfund receivables/payables noted above are related to the transactions between the Primary Government and the Component Unit.

Interfund transfers for the year ended December 31, 2015, were as follows:

| | Transfer In: | | | | |
|-----------------------------|-----------------------------|-------------------|-----------------------|------------|--------------|
| General Fund | Nonmajor Governmental Funds | Debt Service Fund | Capital Projects Fund | | Total |
| Transfer Out: | | | | | |
| <u>Primary Government</u> | | | | | |
| General Fund | \$ - | \$ - | \$ 124,872 | \$ 896 | \$ 125,768 |
| Nonmajor Governmental Funds | - 144,500 | - | - | - | 144,500 |
| Debt Service Fund | - | - | 235,026 | - | 235,026 |
| Sewer Fund | - | 410,121 | - | - | 410,121 |
| Municipal Liquor Store Fund | 140,000 | - | - | - | 140,000 |
| Storm Sewer Utility Fund | - | 42,803 | - | - | 42,803 |
| Total | \$ 140,000 | \$ 144,500 | \$ 577,796 | \$ 235,922 | \$ 1,098,218 |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Interfund Receivables, Payables, and Transfers (Continued)

The transfer from Nonmajor Governmental Funds (Revolving Loan Fund) to the Nonmajor Governmental Funds (EDA) was for the levy assessments for improvements of land held by the EDA. The transfer from Nonmajor Governmental Funds (Cable Franchise Fund) to the Debt Service Fund was for debt service payments. The transfer from the Nonmajor Governmental Funds (Kestrel TIF) to the Nonmajor Governmental Funds (Oakview Land Trust) was for operational responsibilities. The transfer from the Sewer Fund to the Debt Service Fund was for operational responsibilities of the Sewer Fund. The transfer from the Liquor Fund to the General Fund was for operations. The transfer from Storm Water Fund to the Debt Service Fund was for operational responsibilities of the Storm Water Fund. The transfer from the Debt Service Funds to the Capital Projects Fund was to close out the 2003A Refunding Bond Fund.

4. Capital Assets

Capital asset activity for the Primary Government, Governmental Activities for the year ended December 31, 2015, is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|-----------|-------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 8,279,742 | \$ - | \$ - | \$ 8,279,742 |
| Capital Assets, Being Depreciated | | | | |
| Buildings and Improvements | 3,422,319 | - | - | 3,422,319 |
| Machinery and Equipment | 1,866,462 | - | - | 1,866,462 |
| Vehicles | 2,465,197 | 87,907 | 18,432 | 2,534,672 |
| Infrastructure | 27,968,890 | 238,496 | - | 28,207,386 |
| Total Capital Assets, Being Depreciated | 35,722,868 | 326,403 | 18,432 | 36,030,839 |
| Less Accumulated Depreciation for | | | | |
| Buildings and Improvements | 1,205,382 | 91,948 | - | 1,297,330 |
| Machinery and Equipment | 1,333,090 | 94,493 | - | 1,427,583 |
| Vehicles | 1,798,963 | 111,689 | 18,432 | 1,892,220 |
| Infrastructure | 7,484,700 | 730,864 | - | 8,215,564 |
| Total Accumulated Depreciation | 11,822,135 | 1,028,994 | 18,432 | 12,832,697 |
| Total Capital Assets, Being Depreciated, Net | 23,900,733 | (702,591) | - | 23,198,142 |
| Governmental Activities Capital Assets, Net | \$ 32,180,475 | \$ (702,591) | \$ - | \$ 31,477,884 |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

Capital asset activity for the Primary Government, Business-Type Activities for the year ended December 31, 2015, is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|-------------|----------------------|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 354,454 | \$ - | \$ - | \$ 354,454 |
| Capital Assets, Being Depreciated | | | | |
| Building and Improvements | 14,347,246 | - | - | 14,347,246 |
| Equipment | 225,077 | 10,000 | 14,034 | 221,043 |
| Infrastructure | 20,556,508 | - | - | 20,556,508 |
| Total Capital Assets, Being Depreciated | 35,128,831 | 10,000 | 14,034 | 35,124,797 |
| Less Accumulated Depreciation For | | | | |
| Building and Improvements | 4,258,846 | 319,848 | - | 4,578,694 |
| Equipment | 129,197 | 10,891 | 14,034 | 126,054 |
| Infrastructure | 6,404,341 | 523,897 | - | 6,928,238 |
| Total Accumulated Depreciation | 10,792,384 | 854,636 | 14,034 | 11,632,986 |
| Total Capital Assets, Being Depreciated, Net | 24,336,447 | (844,636) | - | 23,491,811 |
| Business-Type Activities Capital Assets, Net | <u>\$ 24,690,901</u> | <u>\$ (844,636)</u> | <u>\$ -</u> | <u>\$ 23,846,265</u> |

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

| | | |
|---|--|---------------------|
| Governmental Activities: | | |
| General Government | | \$ 25,970 |
| Public Safety | | 136,391 |
| Public Works | | 812,204 |
| Culture and Recreation | | 54,429 |
| Total Depreciation Expense - Governmental Activities | | <u>\$ 1,028,994</u> |
| Business-type Activities: | | |
| Sewer | | \$ 608,988 |
| Liquor | | 18,128 |
| Storm Sewer | | 227,520 |
| Total Depreciation Expense - Business-Type Activities | | <u>\$ 854,636</u> |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

Long-Term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The reporting City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

The City issued \$5,920,000 GO Improvement Refunding Bonds, Series 2013A to refund the 2003B GO Improvement Bonds and 2004B GO Public Improvement Bonds in 2014. In 2015, the 2005A GO Improvement Bonds were refunded. The interest rates on the new bonds range from .55% to 2.00%, compared to 2.50% to 4.75% on the old bonds. The lower interest rates will reduce future debt service by over \$500,000. The present value of savings is \$485,000.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

Long-Term Debt (Continued)

As of December 31, 2015, the governmental long-term bonded debt of the financial reporting entity consisted of the following:

| | <u>Range of Interest Rates</u> | <u>Original Issue</u> | <u>Amount Outstanding</u> |
|---|------------------------------------|---------------------------|-------------------------------|
| BONDED INDEBTEDNESS | | | |
| PRIMARY GOVERNMENT | | | |
| GENERAL OBLIGATION BONDS | | | |
| 2009A GO Street Reconstruct Bonds | 3.00-5.00% | \$ 590,000 | \$ 480,000 |
| 2010B GO Refunding Bonds | 0.65-3.30% | 1,720,000 | 1,080,000 |
| Total General Obligation Bonds | | <u>2,310,000</u> | <u>1,560,000</u> |
| GENERAL OBLIGATION IMPROVEMENT BONDS | | | |
| 2006C GO Improvement Bonds | 3.70-4.10% | 145,000 | 75,000 |
| 2007A GO Imp Bonds | 4.00-4.75% | 1,715,000 | 1,065,000 |
| 2008A GO Improvement Bonds | 2.70-4.25% | 1,725,000 | 1,345,000 |
| 2010A GO Improvement and Refunding Bonds | 2.00-3.50% | 1,955,000 | 790,000 |
| 2013A GO Improvement Refunding Bonds | 0.55-2.00% | 5,920,000 | 5,425,000 |
| Total General Obligation Improvement Bonds | | <u>11,460,000</u> | <u>8,700,000</u> |
| GENERAL OBLIGATION REVENUE BONDS | | | |
| 2009A Taxable Lease Revenue Bonds | 4.00-5.95% | 4,900,000 | 4,390,000 |
| GENERAL OBLIGATION TAX INCREMENT BONDS | | | |
| 2006B GO TIF and Refunding Bonds | 4.00-4.30% | 2,860,000 | 2,040,000 |
| 2009D Tax Increment Bonds | 3.50-4.50% | 3,900,000 | 3,775,000 |
| Total General Obligation Tax Increment Bonds | | <u>6,760,000</u> | <u>5,815,000</u> |
| Total Bond Indebtedness - Government Activities | | 25,430,000 | 20,465,000 |
| Promissory Note - Industrial Park III | 5.00-5.50% | 666,216 | 124,713 |
| 2013 Equipment Certificates of Indebtedness | 2.00% | 73,500 | 44,100 |
| Bond Premium | | N/A | 40,329 |
| Bond Discount | | N/A | (62,952) |
| Compensated Absences | | N/A | 164,833 |
| Total Indebtedness - Governmental Activities | | <u>\$ 26,169,716</u> | <u>\$ 20,776,023</u> |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

Long-Term Debt (Continued)

| | <u>Range of Interest Rates</u> | <u>Original Issue</u> | <u>Amount Outstanding</u> |
|--|------------------------------------|---------------------------|-------------------------------|
| BUSINESS-TYPE ACTIVITIES | | | |
| GENERAL OBLIGATION REVENUE BONDS | | | |
| 1999B Liquor Store Rev Bonds | 5.00-6.30% | \$ 760,000 | \$ 260,000 |
| PFA Sewer Bond- Treatment Plant Bond | 2.34% | 11,500,000 | 8,170,000 |
| 2006A Sewer & Storm GO Utility Bonds | 4.00-4.60% | 880,000 | 600,000 |
| 2006C GO Sewer Revenue Bonds | 3.70-4.10% | 485,000 | 265,000 |
| 2008A GO Improvement Bonds | 2.70-4.25% | 90,000 | 70,000 |
| 2009B GO Sewer Rev and Refunding Bonds | 2.50-4.00% | <u>1,760,000</u> | <u>1,490,000</u> |
| Total Bond Indebtedness - Business-Type Activities | | 15,475,000 | 10,855,000 |
| | | | |
| Bond Premium | | N/A | 25,440 |
| Compensated Absences | | <u>N/A</u> | <u>48,939</u> |
| | | | |
| Total City Indebtedness - Business Type Activities | | <u>\$ 15,475,000</u> | <u>\$ 10,929,379</u> |
| | | | |
| Total Government-Wide Long-Term Liabilities | | | <u>\$ 31,705,402</u> |

On June 20, 2011, the City and the Minnesota Public Facilities Authority (MPFA) agreed to amend the terms of the G.O. Sewer Revenue Note of 2003, which is an outstanding obligation of the City payable to the MPFA. The outstanding principal amount owed did not change, but principal payments due in the years 2011-2015 were reduced from \$2,960,000 to \$300,000 and the maturity date of the note was extended ten years. As a result, the interest rate of the note increased from 2.34% to 2.601% effective June 20, 2011. Prior to the amendment, total remaining interest payments from August 2011 through August 2023 were scheduled to be \$1,352,169. Under the new terms, interest payments from August 2011 through August 2033 are scheduled to be \$3,145,954.

The Taxable Lease Revenue Bonds of 2009A have a reserve requirement of \$420,700 which will be used to make a debt service payment if the City is unable to do so. At December 31, 2015, the City had sufficient funds on deposit with the trust department of a financial institution in order to meet its reserve requirement.

The sale of ESSBY industrial land may obligate the City to make up to a \$40,000 principal payment per acre sold. The City must provide a certificate stating that the ratio of the outstanding principal amount to the number of acres of developable land does not exceed \$40,000 per acer of developable land.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

Long-Term Debt (Continued)

Operating Lease

The City has entered into two equipment leases for a copier and telephone services. Lease expenditures for the year ended December 31, 2014, were \$5,355.

The following is an annual schedule of future minimum lease payments under these leases:

| Year Ended December 31, | IKON Copier Lease | Graybar Telephone Lease |
|----------------------------|----------------------|-------------------------------|
| 2016 | \$ 3,040 | \$ 5,556 |
| 2017 | 3,040 | 5,556 |
| 2018 | - | 5,556 |
| 2019 | - | 3,241 |
| Total | <u>\$ 6,080</u> | <u>\$ 19,909</u> |

A summary of long-term debt transactions for the year ended December 31, 2015, is as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|------------------|---------------------|----------------------|------------------------|
| PRIMARY GOVERNMENT | | | | | |
| GOVERNMENTAL ACTIVITIES | | | | | |
| General Obligation Bonds | \$ 1,750,000 | \$ - | \$ 190,000 | \$ 1,560,000 | \$ 190,000 |
| General Obligation Improvement Bonds | 12,635,000 | - | 3,935,000 | 8,700,000 | 1,410,000 |
| General Obligation Revenue Bonds | 4,540,000 | - | 150,000 | 4,390,000 | 160,000 |
| General Obligation Tax Increment Bonds | 6,030,000 | - | 215,000 | 5,815,000 | 230,000 |
| Promissory Note | 221,217 | - | 96,504 | 124,713 | 124,713 |
| Equipment Certificates of Indebtedness | 58,800 | - | 14,700 | 44,100 | 14,700 |
| Plus (Less): Bond Premium (Discount) | (20,302) | - | 2,321 | (22,623) | - |
| Compensated Absences | 164,632 | 10,718 | 10,517 | 164,833 | 22,078 |
| Governmental Activity Long-Term Liabilities | <u>\$ 25,379,347</u> | <u>\$ 10,718</u> | <u>\$ 4,614,042</u> | <u>\$ 20,776,023</u> | <u>\$ 2,151,491</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| General Obligation Bonds | \$ 11,230,000 | \$ - | \$ 375,000 | \$ 10,855,000 | \$ 630,000 |
| Plus: Bond Premium | 28,619 | - | 3,179 | 25,440 | - |
| Compensated Absences | 53,981 | 7,662 | 12,704 | 48,939 | 5,397 |
| Business-Type Activity Long-Term Liabilities | <u>\$ 11,312,600</u> | <u>\$ 7,662</u> | <u>\$ 390,883</u> | <u>\$ 10,929,379</u> | <u>\$ 635,397</u> |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

Long-Term Debt (Continued)

Annual debt service requirements to maturity for long-term debt are as follows:

| General Obligation Bonds | | | | General Obligation Bonds | | | |
|--------------------------|---------------------|-------------------|---------------------|--------------------------|----------------------|---------------------|----------------------|
| Governmental Activities | | | | Business-Type Activities | | | |
| | Principal | Interest | Total | | Principal | Interest | Total |
| 2016 | \$ 190,000 | \$ 48,506 | \$ 238,506 | 2016 | \$ 630,000 | \$ 357,502 | \$ 987,502 |
| 2017 | 195,000 | 44,130 | 239,130 | 2017 | 660,000 | 344,668 | 1,004,668 |
| 2018 | 195,000 | 39,178 | 234,178 | 2018 | 680,000 | 329,436 | 1,009,436 |
| 2019 | 205,000 | 33,633 | 238,633 | 2019 | 705,000 | 306,870 | 1,011,870 |
| 2020 | 160,000 | 28,045 | 188,045 | 2020 | 665,000 | 236,587 | 901,587 |
| 2021-2025 | 445,000 | 73,236 | 518,236 | 2021-2025 | 3,250,000 | 842,343 | 4,092,343 |
| 2026-2030 | 170,000 | 17,500 | 187,500 | 2026-2030 | 2,615,000 | 420,198 | 3,035,198 |
| Total | <u>\$ 1,560,000</u> | <u>\$ 284,227</u> | <u>\$ 1,844,227</u> | 2031-2035 | 1,650,000 | 86,613 | 1,736,613 |
| | | | | Total | <u>\$ 10,855,000</u> | <u>\$ 2,924,216</u> | <u>\$ 13,779,216</u> |

| General Obligation Improvement Bonds | | | | Revolving EDA Bonds | | | |
|--------------------------------------|---------------------|-------------------|---------------------|-------------------------|---------------------|---------------------|---------------------|
| Governmental Activities | | | | Governmental Activities | | | |
| | Principal | Interest | Total | | Principal | Interest | Total |
| 2016 | \$ 1,410,000 | \$ 177,425 | \$ 1,587,425 | 2016 | \$ 160,000 | \$ 254,200 | \$ 414,200 |
| 2017 | 1,405,000 | 157,267 | 1,562,267 | 2017 | 165,000 | 245,059 | 410,059 |
| 2018 | 1,285,000 | 135,080 | 1,420,080 | 2018 | 175,000 | 275,497 | 450,497 |
| 2019 | 1,045,000 | 114,944 | 1,159,944 | 2019 | 185,000 | 225,372 | 410,372 |
| 2020 | 1,030,000 | 96,738 | 1,126,738 | 2020 | 195,000 | 214,440 | 409,440 |
| 2021-2025 | 2,060,000 | 262,453 | 2,322,453 | 2021-2022 | 3,510,000 | 300,730 | 3,810,730 |
| 2026-2030 | 465,000 | 41,013 | 506,013 | Total | <u>\$ 4,390,000</u> | <u>\$ 1,515,298</u> | <u>\$ 5,905,298</u> |
| Total | <u>\$ 8,700,000</u> | <u>\$ 984,918</u> | <u>\$ 9,684,918</u> | | | | |

| Tax Increment Bonds | | | | Promissory Note | | | |
|-------------------------|---------------------|---------------------|---------------------|-------------------------|-------------------|-----------------|------------------|
| Governmental Activities | | | | Governmental Activities | | | |
| | Principal | Interest | Total | | Principal | Interest | Total |
| 2016 | \$ 230,000 | \$ 241,979 | \$ 471,979 | 2016 | <u>\$ 124,713</u> | <u>\$ 8,713</u> | <u>\$ 84,066</u> |
| 2017 | 245,000 | 232,659 | 477,659 | | | | |
| 2018 | 255,000 | 222,853 | 477,853 | | | | |
| 2019 | 270,000 | 212,516 | 482,516 | | | | |
| 2020 | 280,000 | 201,599 | 481,599 | | | | |
| 2021-2025 | 1,610,000 | 819,993 | 2,429,993 | | | | |
| 2026-2030 | 1,085,000 | 516,695 | 1,601,695 | | | | |
| 2031-2035 | 1,220,000 | 284,183 | 1,504,183 | | | | |
| 2036-3037 | 620,000 | 28,350 | 648,350 | | | | |
| Total | <u>\$ 5,815,000</u> | <u>\$ 2,760,826</u> | <u>\$ 8,575,826</u> | | | | |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

Long-Term Debt (Continued)

Conduit Debt Obligation

The City issued the \$4,075,000 Health Care and Facilities Refunding Note (North Branch Senior Living Project), Series 2014. The note is secured by the property financed and is payable solely from payments received on the underlying mortgage loan. Neither the City, the state, nor any political subdivision thereof, is obligated in any manner for repayment of the note. Accordingly the note is not reported as a liability in the accompanying financial statements.

The principal balance outstanding at December 31, 2015 was \$4,075,000.

The City issued the \$1,868,539 Revenue Note, Series 2015A, the \$216,600 Taxable Revenue Note, Series 2015B, and the \$1,579,518 Revenue Note, Series 2015C to finance the Family Pathways Project. Neither the City, State, nor any political subdivision thereof, is obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as a liability in the accompanying financial statements.

The principal balance outstanding at December 31, 2015 was \$3,650,252.

NOTE 5 PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 PENSION PLANS (CONTINUED)

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following 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.

1. GERF Benefits

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 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% of average salary for each of the first ten years of service and 2.7% 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 ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 PENSION PLANS (CONTINUED)

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City contributions to the GERF for the year ended December 31, 2015, were \$85,884. The City contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City contributions to the PEPFF for the year ended December 31, 2015, were \$113,738. The City contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the City reported a liability of \$948,401 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was .0183%.

For the year ended December 31, 2015, the City recognized pension expense of \$108,804 for its proportionate share of the GERF's pension expense.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

At December 31, 2015 the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ - | \$ 47,816 |
| Changes in Actuarial Assumptions | - | - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 89,781 | - |
| Changes in Proportion and Differences Between Agency Contributions and Proportionate Share of Contributions | - | 52,847 |
| City Contributions Subsequent to the Measurement Date | 46,249 | - |
| Total | <u>\$ 136,030</u> | <u>\$ 100,663</u> |

\$46,249 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30 | Pension Expense Amount |
|--------------------|---------------------------|
| 2016 | \$ (11,109) |
| 2017 | (11,109) |
| 2018 | (11,109) |
| 2019 | 22,445 |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$818,088 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City proportion was .072%.

For the year ended December 31, 2015, the City recognized pension expense of \$148,176. The City also recognized \$6,480 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City's proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources is as follows:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ - | \$ 132,667 |
| Changes in Actuarial Assumptions | - | - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 142,538 | - |
| Changes in Proportion and Differences Between Agency Contributions and Proportionate Share of Contributions | 36,001 | - |
| Agency Contributions Subsequent to the Measurement Date | 57,789 | - |
| Total | <u>\$ 236,328</u> | <u>\$ 132,667</u> |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFF Pension Costs (Continued)

\$57,789 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30 | Pension Expense Amount |
|--------------------|---------------------------|
| 2016 | \$ 16,301 |
| 2017 | 16,301 |
| 2018 | 16,301 |
| 2019 | 16,301 |
| 2020 | (19,332) |

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

| Assumptions | GERF |
|------------------------------|----------------|
| Inflation | 2.75% per year |
| Active Member Payroll Growth | 3.50% per year |
| Investment Rate of Return | 7.90% per year |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2015: the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by 0.25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|---------------------|--|
| Domestic Equity | 45 % | 5.50 % |
| International Equity | 15 | 6.00 |
| Bonds | 18 | 1.45 |
| Alternative Assets | 20 | 6.40 |
| Cash | <u>2</u> | 0.50 |
| Totals | <u><u>100 %</u></u> | |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability was 7.90% for GERF and PEPFF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 City 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 City proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

| Description | 1% Decrease in Discount Rate 6.90% | Current Discount Rate 7.90% | 1% Increase in Discount Rate 8.90% |
|--|--|-----------------------------------|--|
| City's Proportionate Share of the GERF Net Pension Liability | \$ 1,491,223 | \$ 948,401 | \$ 500,113 |
| City proportionate share of the PEPFF net pension liability: | \$ 1,594,463 | \$ 818,088 | \$ 176,668 |

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; 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.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN

A. Plan Description

Firefighters of the City of North Branch are members of the North Branch Firefighters Relief Association (the Association). The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes, Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2014, membership includes 26 active participants and 4 terminated employees entitled to benefit but not yet receiving them.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$950 for each year of active Fire Department service but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with 10 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$3,200 for each year the member was an active member of the North Branch Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10% of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

**NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

C. Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from state aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). The minimum contribution from the City of North Branch and state aid is determined as follows:

| | |
|---|--|
| | Normal Cost |
| + | Amortization Payment on Unfunded Accrued Liability Prior to Any Change |
| + | Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change |
| + | Administrative Expenses |
| - | Anticipated State Aid |
| - | Projected Investment Earnings |
| = | <hr/> <hr/> Total Contribution Required |

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$60,989 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2014. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2014 was \$58,673

D. Pension Costs

At December 31, 2015, the City reported an asset of \$84,599 for the Association's net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension assets used to calculate the net pension asset was determined by an actuarial valuation as of that date.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

**NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

D. Pension Costs (Continued)

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$39,730 for the year ended December 31, 2015. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ - | \$ - |
| Changes in Actuarial Assumptions | - | - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 9,693 | - |
| City Contributions Subsequent to the Measurement Date | 36,524 | - |
| Total | <u>\$ 46,217</u> | <u>\$ -</u> |

The City contributions to the Association subsequent to the measurement date, \$36,524 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|------------------------|------------------------------|
| 2016 | \$ 2,423 |
| 2017 | 2,423 |
| 2018 | 2,423 |
| 2019 | 2,424 |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

**NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|----------------------------------|------------------|
| Valuation Date | 12/31/14 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Dollar |
| Remaining Amortization Period | |
| Normal Cost | 20 Years |
| Prior Service Cost | 10 Years |
| Asset Valuation Method | Market |
| Actuarial Assumptions: | |
| Investment Rate of Return | 5.00% |
| Project Salary Increases | N/A |
| Inflation at 0% | N/A |
| Cost-of-living Adjustments | None |
| Age of Service Retirement | 50 |
| Post-Retirement Benefit Increase | None |

The best-estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best-estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

F. Discount Rate

The discount rate used to measure the total pension liability was 6.00%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

**NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

G. Pension Asset Sensitivity

The following presents the City of North Branch's proportionate share of the net pension asset of the Association, calculated using the discount rate of 6.00%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current rate:

| | 1% Decrease | Selected Discount Rate | 1% Increase |
|-------------------------------|-------------|---------------------------|-------------|
| Net Pension Liability (Asset) | \$ (41,428) | \$ (63,694) | \$ (85,157) |
| Discount Rate | 6.00% | 7.00% | 8.00% |

H. Plan's Fiduciary Net Position

Detailed information about the Plan's fiduciary's net position is available in a separately issued report. That report may be obtained by writing to North Branch Firefighter's Association, 37917 Forest Blvd, North Branch, MN or by calling (651)674-7908.

Information about the changes in the Plan's net pension asset is as follows:

| | |
|---|--------------------|
| <u>Total Pension Asset</u> | |
| Service Cost | \$ 34,064 |
| Interest | 42,383 |
| Benefit Payments, Including Member Refunds | (121,923) |
| Net Change in Total Pension Asset | (45,476) |
| | |
| Total Pension Asset - Beginning | 666,439 |
| Total Pension Asset - Ending (a) | 620,963 |
| | |
| <u>Plan Fiduciary Net Position</u> | |
| Municipal Contributions | 61,125 |
| State Contributions | 60,989 |
| Net Investment Income | 33,721 |
| Benefit Payments | (121,923) |
| Administrative Expenses | (6,500) |
| Other Changes | (1,473) |
| Net Change in Fiduciary Net Position | 25,939 |
| | |
| Fiduciary Net Position - Beginning | 658,718 |
| Fiduciary Net Position - Ending (b) | 684,657 |
| | |
| Association's Net Pension Liability/(Asset) - Ending (a) - (b) | \$ (63,694) |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 7 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to LMCIT. 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 deductible of \$1,000 per occurrence. The City's workers compensation coverage is retrospectively rated. With the type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

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 City retains risk for the deductible portions. These deductibles are considered immaterial to the financial statements.

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

NOTE 8 SUMMARY OF OTHER ITEMS

Claims and Litigation

Existing and pending lawsuits, claims and other actions in which the City is a defendant are either covered by insurance, of an immaterial amount; or in the judgment of City management, are remotely recoverable by plaintiffs.

Grants

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial. The financial assistance received is subject to an audit pursuant to the Uniform Grant Guidance or audits by the grantor agency.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 COMMITMENTS AND CONTINGENCIES

In 2006, the City entered into an agreement to purchase 94.7 acres of land from Chisago County HRA/EDA for \$2,200,000 plus interest. The City did not immediately take ownership of the land, but instead is purchasing (and subsequently reselling) smaller parcels of the land over a twenty year period. Under the terms of the original agreement, the City must purchase 50% of the land (\$1,100,000) by July 1, 2016 and the remainder by July 1, 2026.

During 2011, the City and Chisago County HRA/EDA agreed to modify the payment terms relating to the land purchase. Under the terms of the new agreement, the City is anticipated to pay the County HRA/EDA a total of \$3,293,080, calculated as follows:

| | |
|--|----------------------------|
| Original Purchase Price of Land | \$ 2,200,000 |
| Less 0.57 Acres Previously Purchased | <u>(14,943)</u> |
| Outstanding Cost of Land not yet Purchased | 2,185,057 |
| Plus Anticipated Interest Cost | <u>1,108,023</u> |
| | |
| Total Anticipated Payments | 3,293,080 |
| Less Principal Payments Made | <u>(745,000)</u> |
| Total Remaining Payments | <u><u>\$ 2,548,080</u></u> |

Interest payments, and thus total payments, are approximate because the interest rate is subject to change based on future performance of the County HRA/EDA's investment portfolio. The interest rate at December 31, 2015 is 3.25%.

Due to the uncertainty of future land sales, the City expects to levy property taxes payable in years 2013-2026 totaling \$2,813,080 as well as provide an additional \$460,000 of funds from internal transfers to fund its obligation to the County HRA/EDA. Future anticipated payments are as follows:

| | |
|-----------|----------------------------|
| 2016 | \$ 225,000 |
| 2017 | 225,000 |
| 2018 | 225,000 |
| 2019 | 225,000 |
| 2020 | 240,000 |
| 2021-2025 | 1,180,000 |
| 2026 | <u>228,080</u> |
| Total | <u><u>\$ 2,548,080</u></u> |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Pay-As-You-Go TIF

The City has 15 tax increment pay-as-you-go agreements. These agreements are not a general obligation of the City and are payable solely from available tax increments. Accordingly, these agreements are not reflected in the financial statements of the City. Details of the pay-as-you-go agreements are as follows:

Kestrel Meadows TIF Fund 230

The agreement for the Kestrel Meadows TIF provides for the payment of the lesser of \$20,000 per year or 85% of tax increment received in the previous year until \$240,000 is paid or the year 2024 whichever comes first.

Uptown Maplewood Commons TIF Fund 277

The agreement for the Uptown Maplewood Commons TIF provides for the payment of 90% of the tax increment received until the maximum of \$200,000 or 20 years has been reached.

Oakview Townhomes TIF Fund 240

The agreement for the Oakview Townhomes TIF provides for the payment of \$500 of the tax increment received each July and December until the maximum of \$10,000 has been reached.

Kelly Brothers TIF Fund 279

The agreement for the Kelly Brothers TIF provides for the payment of 90% of the tax increment received until the maximum of \$500,000 plus 6% interest or 26 years has been reached.

North Branch Senior Living TIF (Ecumen) Fund 281

The agreement for the North Branch Senior Living TIF provides for the payment of 90% of the tax increment received until the maximum of \$471,014 plus 5% interest or until the year 2027.

Swanson TIF Fund 286

The agreement for the Swanson TIF provides for the payment of 90% of the tax increment received until the maximum of \$52,800 plus 5% interest or until the year 2016.

Norlite TIF District 2007A Fund 287

The agreement for the Norlite TIF provides for the payment of 90% of the tax increment received until the maximum of \$55,730 at 9% interest is paid or until the year 2017.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 TRANSACTIONS BETWEEN THE CITY AND ITS COMPONENT UNIT

The City conducts routine transactions with its component unit for goods or services provided or received. The Water and Light Commission bills, collects and remits sewer and storm sewer charges to the City. Also, the water portion of the City constructed street improvement projects is contributed to the Water and Light Commission, which pays an applicable portion of construction costs relating to each project.

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT

North Branch Municipal Water and Light Commission

Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by North Branch Municipal Water and Light Commission (the Commission). The Commission's year ended on December 31, 2015.

Basis of Accounting

The financial statements of 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.

Restricted Assets

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

Deposits and Investments

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

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

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

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Deposits and Investments (Continued)

The Commission 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. Share of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities in (1) above.
3. General obligations of the State of Minnesota or any of its municipalities.
4. Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
5. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality, and maturing in 270 days or less.
6. Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000 a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
7. Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.

Investments for the Commission are reported 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.

The Commission has adopted an investment policy to establish objectives and specific guidelines that the Commission will use in the investment of Commission funds. The objectives of the policy are as follows:

- Safety of Principal - Safety of the principal is the foremost objective of the Commission. Each investment transaction must seek to first ensure that losses are minimized.
- Liquidity - The investment portfolio must remain sufficiently liquid to meet all operating costs that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.
- Yield - The investment portfolio must be maintained so as to attain a market-average rate of return.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Deposits and Investments (Continued)

The Commission will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The Commission will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields; however, no more than

five percent of unreserved funds shall extend beyond three years unless ratified by the Commission Board to extend beyond that period.

For purposes of the statement of cash flows, the Commission considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the cash and investments allocated to the proprietary funds have original maturities of 90

days or less. Therefore, the entire balance in the proprietary funds is considered cash equivalents.

Accounts Receivable

Customer accounts receivable in the electric utility fund have been shown net of an allowance for uncollectible accounts of \$102,194. All significant receivable balances are expected to be collected within one year. The allowance account considers water and electric customer accounts can be placed on the tax roll for collection when delinquent. Unpaid water and electric customer accounts certified for the tax roll during 2015 and 2014 of \$38,519 and \$17,164, respectively, are reported as due from the primary government on the statement of net position.

Inventories

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

Capital Assets

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

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Capital Assets (Continued)

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

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

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

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, 2015 are determined on the basis of current salary rates and include salary related payments.

Pensions

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

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Capital Contributed

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

Net Position

Net position represents the difference between assets and liabilities. Net position is displayed in three components:

Net Investment in Capital Assets – Consist of capital assets, net of accumulated depreciation and reduced by any outstanding debt attributable to acquire capital assets

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.

Unrestricted Net Position – All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt or restricted”.

Deposits and Investments

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

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

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

At year end, the Commission's carrying amount of deposits was \$2,886,619 and the bank balance was \$2,911,162. Of the bank balance, \$750,000 was covered by federal depository insurance. Of the remaining balance, \$2,161,162 was collateralized with securities held by the pledging financial institution's trust department in the Commission's name.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Deposits and Investments (Continued)

As of December 31, 2015, the Commission had the following pooled investments that are insured or registered, or securities held by the Commission or its agent in the Commission's name:

| <u>Type of Investment</u> | <u>Fair Value and Carrying Amount</u> | <u>Cost</u> | <u>Credit Quality Rating</u> | <u>Maturity Date</u> |
|---------------------------|---|-------------|--------------------------------------|--------------------------|
| Edward Jones | \$ 37,237 | \$ 37,237 | N/A | N/A |
| Wells Fargo Investment | 415,431 | 415,431 | N/A | N/A |

A reconciliation of cash and investments as shown on the statement of net position follows:

| | |
|---------------------------|----------------------------|
| Statement of net position | |
| Cash and Cash Investments | \$ 638,084 |
| Restricted Assets | <u>2,701,353</u> |
| Total Cash | <u><u>\$ 3,339,437</u></u> |

Restricted Assets

The following represent the balances of the restricted assets:

Long Term Debt Accounts

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

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

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

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Hookup Charge Account

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

The following is a list of restricted assets at December 31, 2015:

| | Restricted Assets | Liabilities Payable from Restricted Assets | Net Restricted Assets |
|-----------------------------|----------------------|---|-----------------------------|
| Bond Redemption Account | \$ 943,562 | \$ 250,576 | \$ 692,986 |
| Bond Reserve Account | 1,554,374 | - | 1,554,374 |
| Water Hookup Charge Account | 203,417 | - | 203,417 |
| Total Restricted Assets | <u>\$ 2,701,353</u> | <u>\$ 250,576</u> | <u>\$ 2,450,777</u> |

Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

| | Beginning Balance | Additions | Transfers/ Retirements | Ending Balance |
|--|----------------------|---------------------|---------------------------|----------------------|
| WATER AND LIGHT COMMISSION | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 98,930 | \$ - | \$ - | \$ 98,930 |
| Capital Assets, Being Depreciated | | | | |
| Building and Structures | 2,083,716 | 49,900 | - | 2,133,616 |
| Equipment and Vehicles | 6,601,199 | 17,212 | - | 6,618,411 |
| Distribution System | 26,648,535 | 33,819 | - | 26,682,354 |
| Total Capital Assets, Being Depreciated | 35,333,450 | 100,931 | - | 35,434,381 |
| Less Accumulated Depreciation | <u>(10,417,340)</u> | <u>(1,081,245)</u> | <u>-</u> | <u>(11,498,585)</u> |
| Total Capital Assets, Depreciated, Net | <u>24,916,110</u> | <u>(980,314)</u> | <u>-</u> | <u>23,935,796</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 25,015,040</u> | <u>\$ (980,314)</u> | <u>\$ -</u> | <u>\$ 24,034,726</u> |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the Commission for the year ended December 31, 2015:

| COMPONENT UNIT | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-----------------|-------------------|----------------------|------------------------|
| WATER AND LIGHT COMMISSION | | | | | |
| General Obligation Bonds | \$ 16,290,000 | \$ - | \$ 960,000 | \$ 15,330,000 | \$ 995,000 |
| Bond Premium | 46,840 | 9,749 | - | 56,589 | - |
| Bond Discount | (120,688) | - | (8,615) | (112,073) | - |
| Compensated Absences | 61,023 | - | 10,163 | 50,860 | - |
| Component Unit Activity Long-Term Liabilities | <u>\$ 16,277,175</u> | <u>\$ 9,749</u> | <u>\$ 961,548</u> | <u>\$ 15,325,376</u> | <u>\$ 995,000</u> |

Annual debt service requirements to maturity, including interest payments, are as follows:

| | Water and Light Commission | | |
|-----------|----------------------------|---------------------|----------------------|
| | Long-Term Debt | | |
| | Principal | Interest | Total |
| 2016 | \$ 995,000 | \$ 719,221 | \$ 1,714,221 |
| 2017 | 1,040,000 | 677,732 | 1,717,732 |
| 2018 | 1,040,000 | 633,570 | 1,673,570 |
| 2019 | 1,000,000 | 587,276 | 1,587,276 |
| 2020 | 1,050,000 | 540,648 | 1,590,648 |
| 2021-2025 | 5,390,000 | 1,931,408 | 7,321,408 |
| 2026-2030 | 3,260,000 | 758,132 | 4,018,132 |
| 2031-2035 | 1,555,000 | 201,851 | 1,756,851 |
| Total | <u>\$ 15,330,000</u> | <u>\$ 6,049,838</u> | <u>\$ 21,379,838</u> |

Bond Covenants

As of December 31, 2015, the Commission was in compliance with provisions of the revenue bonds which require a 110% debt coverage requirement. The Commission will continue to monitor rates and expenses to insure this is met each year.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plans Statewide

A. Plan Description

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

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the North Branch Municipal Water and Light Commission, Minnesota are covered by the General Employees Retirement Fund (GERF). GERF 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1 % increases. The benefit provisions stated in the following 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.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plans Statewide (Continued)

B. Benefits Provided (Continued)

GERF Benefits

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 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% of average salary for each of the first ten years of service and 2.7% 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 ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

C. Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute-% and-%, respectively, of their annual covered salary in 2015. The North Branch Municipal Water and Light Commission, Minnesota was required to contribute 11.78% for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The North Branch Municipal Water and Light Commission, Minnesota contributions to the GERF for the year ended December 31, 2015, were \$45,720. The North Branch Municipal Water and Light Commission, Minnesota contributions were equal to the required contributions as set by state statute.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plans Statewide (Continued)

D. Pension Costs

GERF Pension Costs

At December 31, 2015, the North Branch Municipal Water and Light Commission, Minnesota reported a liability of \$538,982 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The North Branch Municipal Water and Light Commission, Minnesota proportion of the net pension liability was based on the North Branch Municipal Water and Light Commission, Minnesota contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the North Branch Municipal Water and Light Commission, Minnesota proportion was 0.0104%.

For the year ended December 31, 2015, the North Branch Municipal Water and Light Commission, Minnesota recognized pension expense of \$61,276 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the North Branch Municipal Water and Light Commission, Minnesota reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ - | \$ 27,174 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 51,023 | - |
| Changes in Proportion and Differences Between Agency Contributions and Proportionate Share of Contributions | - | 31,708 |
| Contributions Subsequent to the Measurement Date | 23,129 | - |
| Total | <u>\$ 74,152</u> | <u>\$ 58,882</u> |

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plans Statewide (Continued)

D. Pension Costs (Continued)

\$23,129 reported as deferred outflows of resources related to pensions resulting from North Branch Municipal Water and Light Commission, Minnesota contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30 | Pension Expense Amount |
|--------------------|---------------------------|
| 2016 | \$ (6,872) |
| 2017 | (6,871) |
| 2018 | (6,871) |
| 2019 | 12,755 |

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

| Assumptions | GERF |
|------------------------------|----------------|
| Inflation | 2.75% per year |
| Active Member Payroll Growth | 3.50% per year |
| Investment Rate of Return | 7.90% per year |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plans Statewide (Continued)

E. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.90%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Domestic Equity | 45 % | 5.50 |
| International Equity | 15 | 6.00 |
| Bonds | 18 | 1.45 |
| Alternative Assets | 20 | 6.40 |
| Cash | 2 | 0.50 |
| Totals | 100 % | |

F. Discount Rate

The discount rate used to measure the total pension liability was 7.90%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plans Statewide (Continued)

G. Pension Liability Sensitivity

The following presents the North Branch Municipal Water and Light Commission, Minnesota proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the North Branch Municipal Water and Light Commission, Minnesota proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

| Description | 1% Decrease in Discount Rate 6.90% | Current Discount Rate 7.90% | 1% Increase in Discount Rate 8.90% |
|--|--|-----------------------------------|--|
| North Branch Municipal Water and Light Commission proportionate share of the GERF Net Pension Liability: | \$ 847,471 | \$ 538,982 | \$ 284,217 |

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; 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.

Claims and Judgments

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

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

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Claims and Judgments (Continued)

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

Other Information

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 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.

Accounting Change

Governmental Accounting Standard Board (GASB) Statement No. 68, *"Accounting and Financial Reporting for Pensions"* (an amendment of GASB Statement No. 27) will improve accounting and financial reporting by state and local governments for pensions in addition to information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB Statement No. 71, *"Pension Transition for Contributions made Subsequent to the Measurement Date"* (an amendment to GASB Statement No. 68) addresses an issue regarding application of the transition provisions of Statement No. 68, related to the amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the City's beginning net pension liability. The City implemented these standards for the fiscal year end December 31, 2015.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

North Branch Municipal Water and Light Commission (Continued)

Accounting Change (Continued)

The implementation of GASB Statement No. 68 and 71 resulted in the reclassification of certain funds and restatement of the City's financial statements. This statement had the following effect on fund equity of the Electric and Water funds as they were previously reported:

| Fund | Fund Equity 12/31/14 as previously Reported | Prior Period Restatement (1) | Fund Equity 1/1/15 as Restated |
|--------------------------|--|---------------------------------|-----------------------------------|
| Electric Fund | \$ 4,303,093 | \$ (310,155) | \$ 3,992,938 |
| Water Fund | 7,201,988 | (198,296) | 7,003,692 |
| Business-Type Activities | <u>\$ 11,505,081</u> | <u>\$ (508,451)</u> | <u>\$ 10,996,630</u> |

(1) Recognition of Net Pension Liability as of June 30, 2014 and Deferred Outflows of Resources related to contributions paid during 2014 for the measurement period July 1, 2014 through December 31, 2014.

NOTE 12 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended December 31, 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These pronouncements require the restatement of the December 31, 2014, net position of the governmental activities as follows:

| | Net Position as Previously Stated | Cumulative Affect of Application of GASB 68 Net Pension Liability | Deferred Outflow of Resources for City Contributions Made to the Plans During Measurement Period (7/1/14 - 12/31/14) | Net Position As Restated |
|--------------------------|--------------------------------------|--|---|-----------------------------|
| Governmental Activities | \$ 20,428,089 | \$ (1,290,911) | \$ 133,035 | \$ 19,270,213 |
| Business Type Activities | 15,187,446 | (381,342) | 16,345 | 14,822,449 |
| Sewer | 8,020,850 | (111,612) | 4,784 | 7,914,022 |
| Municipal Liquor Store | 504,027 | (167,419) | 7,176 | 343,784 |
| Storm Sewer Utility | 6,662,569 | (102,311) | 4,385 | 6,564,643 |

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**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A**

**CITY OF NORTH BRANCH, MINNESOTA
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 LAST TEN FISCAL YEARS**

GERF

| | Measurement Date <u>June 30, 2015</u> |
|---|---|
| City's Proportion of the Net Pension Liability | 0.018% |
| City's Proportionate Share of the Net Pension Liability | \$ 948,401 |
| City's Covered-Employee Payroll | \$ 1,077,025 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Plan Fiduciary Net Position as a Percentage of the total Pension Liability | 88.06% 78.20% |

PEPFF

| | Measurement Date <u>June 30, 2015</u> |
|---|---|
| City's Proportion of the Net Pension Liability | 0.072% |
| City's Proportionate Share of the Net Pension Liability | \$ 818,088 |
| City's Covered-Employee Payroll | \$ 655,606 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Plan Fiduciary Net Position as a Percentage of the total Pension Liability | 124.78% 86.60% |

NOTE: Amounts prior to the measurement date of June 30, 2015 are not available.

**CITY OF NORTH BRANCH, MINNESOTA
SCHEDULE OF THE CITY CONTRIBUTIONS
LAST TEN FISCAL YEARS**

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| GERF | | |
| Contractually Required Contribution | \$ 85,884 | \$ 77,281 |
| Contributions in Relation to the Contractually Required Contribution | (85,884) | (77,281) |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> |
| City's Covered-Employee Payroll | \$ 1,145,115 | \$ 1,065,945 |
| Contributions as a Percentage of Covered Employee Payroll | 7.50% | 7.25% |
| | <u>2015</u> | <u>2014</u> |
| PEPFF | | |
| Contractually Required Contribution | \$ 113,738 | \$ 94,728 |
| Contributions in Relation to the Contractually Required Contribution | (113,738) | (94,728) |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> |
| City's Covered-Employee Payroll | \$ 702,086 | \$ 619,137 |
| Contributions as a Percentage of Covered Employee Payroll | 16.20% | 15.30% |
| | <u>2015</u> | <u>2014</u> |
| FIRE RELIEF ASSOCIATION PLAN | | |
| Statutorily Required Contribution | \$ 36,524 | \$ 58,673 |
| Contributions in Relation to the Statutorily Required Contribution | (36,524) | (61,125) |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> |
| City's Covered-Employee Payroll | N/A | N/A |
| Contributions as a Percentage of Covered Employee Payroll | N/A | N/A |

NOTE: Amounts for pre-2014 are not available.

**CITY OF NORTH BRANCH, MINNESOTA
 NORTH BRANCH VOLUNTEER FIRE RELIEF ASSOCIATION
 SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND RELATED RATIOS**

| | 2015 |
|--|--------------------|
| <u>Total Pension Asset</u> | |
| Service Cost | \$ 34,064 |
| Interest | 42,383 |
| Benefit Payments, Including Member Refunds | (121,923) |
| Net Change in Total Pension Asset | (45,476) |
| | |
| Total Pension Asset - Beginning | 666,439 |
| Total Pension Asset - Ending (a) | 620,963 |
| | |
| <u>Plan Fiduciary Net Position</u> | |
| Municipal Contributions | 61,125 |
| State Contributions | 60,989 |
| Net Investment Income | 33,721 |
| Benefit Payments | (121,923) |
| Administrative Expenses | (6,500) |
| Other Changes | (1,473) |
| Net Change in Fiduciary Net Position | 25,939 |
| | |
| Fiduciary Net Position - Beginning | 658,718 |
| Fiduciary Net Position - Ending (b) | 684,657 |
| | |
| Association's Net Pension Liability/(Asset) - Ending (a) - (b) | \$ (63,694) |
| | |
| Fiduciary Net Position as a Percentage of the Total Pension Liability | 110.26% |
| | |
| Covered-Employee Payroll | N/A |
| | |
| Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll | N/A |

**CITY OF NORTH BRANCH, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2015**

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH BUDGET OVER (UNDER) |
|---|--------------------|--------------------|---------------------|--|
| REVENUES | | | | |
| Taxes | \$ 2,081,024 | \$ 2,081,024 | \$ 1,977,700 | \$ (103,324) |
| Tax Increment | - | - | 87,879 | 87,879 |
| Licenses and Permits | 155,650 | 155,650 | 207,278 | 51,628 |
| Special Assessments | 2,770 | 2,770 | 2,269 | (501) |
| Intergovernmental | 951,003 | 968,343 | 1,021,606 | 53,263 |
| Charges for Services | 90,390 | 90,390 | 115,256 | 24,866 |
| Fines and Forfeits | 18,400 | 18,400 | 21,564 | 3,164 |
| Interest | 26,000 | 26,000 | 15,412 | (10,588) |
| Donations | - | - | 2,500 | 2,500 |
| Refunds and Reimbursements | 44,565 | 44,565 | 66,546 | 21,981 |
| Miscellaneous | 21,600 | 21,600 | 4,980 | (16,620) |
| Total Revenues | <u>3,391,402</u> | <u>3,408,742</u> | <u>3,522,990</u> | <u>114,248</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | | | | |
| Mayor and Council | 23,252 | 23,252 | 23,054 | (198) |
| Administration | 105,205 | 113,846 | 107,146 | (6,700) |
| Clerks | 32,190 | 32,190 | 28,677 | (3,513) |
| Financial Administration | 225,876 | 232,196 | 212,553 | (19,643) |
| City Attorney | 35,000 | 35,000 | 44,136 | 9,136 |
| City Engineer | 29,050 | 27,550 | 15,736 | (11,814) |
| Planning and Zoning | 108,931 | 119,004 | 116,887 | (2,117) |
| Governmental Buildings | 182,717 | 179,844 | 159,731 | (20,113) |
| Miscellaneous | 46,950 | 20,450 | 44,173 | 23,723 |
| Total General Government | <u>789,171</u> | <u>783,332</u> | <u>752,093</u> | <u>(31,239)</u> |
| Public Safety | | | | |
| Police Protection | 1,256,636 | 1,277,694 | 1,266,886 | (10,808) |
| Fire Protection | 310,944 | 310,944 | 303,345 | (7,599) |
| Building Inspection | 120,505 | 120,873 | 113,844 | (7,029) |
| Other Protection | 70,400 | 70,400 | 54,486 | (15,914) |
| Total Public Safety | <u>1,758,485</u> | <u>1,779,911</u> | <u>1,738,561</u> | <u>(41,350)</u> |
| Highways and Streets | | | | |
| Street Maintenance | 765,131 | 791,645 | 708,575 | (83,070) |
| Culture and Recreation | | | | |
| Parks | 218,606 | 222,874 | 192,172 | (30,702) |
| Total Expenditures | <u>3,531,393</u> | <u>3,577,762</u> | <u>3,391,401</u> | <u>(186,361)</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (139,991) | (169,020) | 131,589 | 300,609 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 140,000 | 140,000 | 140,000 | - |
| Transfers Out | - | - | (125,768) | (125,768) |
| Total Other Financing Sources (Uses) | <u>140,000</u> | <u>140,000</u> | <u>14,232</u> | <u>(125,768)</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 9</u> | <u>\$ (29,020)</u> | <u>145,821</u> | <u>\$ 174,841</u> |
| Fund Balance - Beginning of Year | | | <u>2,616,764</u> | |
| FUND BALANCE - END OF YEAR | | | <u>\$ 2,762,585</u> | |

See accompanying Notes to Required Supplementary Information.

**CITY OF NORTH BRANCH, MINNESOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2015**

NOTE 1 LEGAL COMPLIANCE BUDGETS

The General Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the department level for the General Fund.

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**COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS**

**CITY OF NORTH BRANCH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR FUNDS
DECEMBER 31, 2015**

| | SPECIAL REVENUE FUNDS | | |
|--|-----------------------|--|-----------------------|
| | 201 EDA FUND | 208 DEPARTMENT EQUIPMENT DONATION | 230 KESTREL TIF |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 45,998 | \$ 62,725 | \$ - |
| Receivables | | | |
| Taxes | 2,531 | - | - |
| Loans | - | - | - |
| Due From Other Governments | - | - | - |
| Prepayments | 836 | - | - |
| Total Assets | <u>\$ 49,365</u> | <u>\$ 62,725</u> | <u>\$ -</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts Payable | \$ 7,181 | \$ 44 | \$ - |
| Accrued Liabilities | 723 | - | - |
| Due to Other Funds | - | - | - |
| Total Liabilities | <u>7,904</u> | <u>44</u> | <u>-</u> |
| Deferred Inflows of Resources | | | |
| Unavailable Revenue on Property Taxes | <u>1,576</u> | <u>-</u> | <u>-</u> |
| Fund Balances (Deficits) | | | |
| Nonspendable | | | |
| Prepayments | 836 | - | - |
| Restricted | - | 62,681 | - |
| Committed | 39,049 | - | - |
| Unassigned | - | - | - |
| Total Fund Balances (Deficit) | <u>39,885</u> | <u>62,681</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 49,365</u> | <u>\$ 62,725</u> | <u>\$ -</u> |

SPECIAL REVENUE FUNDS

| 240 | 260 | 270 | 276 | 277 |
|-----------------------|------------------|-------------------|--------------------|------------------------------|
| OAKVIEW LAND TRUST | TAX ABATEMENT | REVOLVING LOAN | CABLE FRANCHISE | TIF 99A SENIOR HOUSING |
| \$ - | \$ 16,236 | \$ 284,417 | \$ 70,844 | \$ - |
| - | 1,254 | - | - | - |
| - | - | 17,202 | - | - |
| - | - | - | 12,001 | - |
| - | - | - | - | - |
| <u>\$ -</u> | <u>\$ 17,490</u> | <u>\$ 301,619</u> | <u>\$ 82,845</u> | <u>\$ -</u> |
| | | | | |
| \$ - | \$ - | \$ 39 | \$ - | \$ - |
| - | - | - | - | - |
| 18,683 | - | - | - | - |
| <u>18,683</u> | - | 39 | - | - |
| - | 1,254 | - | - | - |
| | | | | |
| - | - | - | - | - |
| - | 16,236 | 301,580 | - | - |
| - | - | - | 82,845 | - |
| (18,683) | - | - | - | - |
| <u>(18,683)</u> | <u>16,236</u> | <u>301,580</u> | <u>82,845</u> | <u>-</u> |
| <u>\$ -</u> | <u>\$ 17,490</u> | <u>\$ 301,619</u> | <u>\$ 82,845</u> | <u>\$ -</u> |

**CITY OF NORTH BRANCH, MINNESOTA
 COMBINING BALANCE SHEET (CONTINUED)
 NONMAJOR FUNDS
 DECEMBER 31, 2015**

| | SPECIAL REVENUE FUNDS | |
|--|--------------------------------|-------------------------------|
| | 279 KELLY HOUSING TIF | 281 ECUMEN TIF DISTRICT |
| ASSETS | | |
| Cash and Cash Equivalents | \$ 3,805 | \$ 25,682 |
| Receivables | | |
| Taxes | - | - |
| Loans | - | - |
| Due From Other Governments | - | - |
| Prepayments | - | - |
| Total Assets | \$ 3,805 | \$ 25,682 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | |
| Liabilities | | |
| Accounts Payable | \$ - | \$ - |
| Accrued Liabilities | - | - |
| Due to Other Funds | - | - |
| Total Liabilities | - | - |
| Deferred Inflows of Resources | | |
| Unavailable Revenue on Property Taxes | - | - |
| Fund Balances (Deficits) | | |
| Nonspendable | | |
| Prepayments | - | - |
| Restricted | 3,805 | 25,682 |
| Committed | - | - |
| Unassigned | - | - |
| Total Fund Balances (Deficit) | 3,805 | 25,682 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 3,805 | \$ 25,682 |

SPECIAL REVENUE FUNDS

| 286 | 287 | 290 | TOTAL NONMAJOR GOVERNMENTAL FUNDS |
|-------------------------|-------------------------------|--------------------|--|
| SWANSON TIF DISTRICT | NORLITE TIF DISTRICT 2007A | HOUSING SUPPORT | |
| \$ - | \$ 1,394 | \$ 52,922 | \$ 564,023 |
| - | - | - | 3,785 |
| - | - | - | 17,202 |
| - | - | - | 12,001 |
| - | - | - | 836 |
| <u>\$ -</u> | <u>\$ 1,394</u> | <u>\$ 52,922</u> | <u>\$ 597,847</u> |
| \$ - | \$ - | \$ - | \$ 7,264 |
| - | - | - | 723 |
| - | - | - | 18,683 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>26,670</u> |
| - | - | - | 2,830 |
| - | - | - | 836 |
| - | 1,394 | 52,922 | 464,300 |
| - | - | - | 121,894 |
| - | - | - | (18,683) |
| <u>-</u> | <u>1,394</u> | <u>52,922</u> | <u>568,347</u> |
| <u>\$ -</u> | <u>\$ 1,394</u> | <u>\$ 52,922</u> | <u>\$ 597,847</u> |

**CITY OF NORTH BRANCH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR FUNDS
YEAR ENDED DECEMBER 31, 2015**

SPECIAL REVENUE FUNDS

| | 201 | 208 | 230 |
|---|------------------|--|-----------------|
| | EDA FUND | FIRE DEPARTMENT EQUIPMENT DONATION | KESTREL TIF |
| REVENUES | | | |
| Taxes | \$ 72,224 | \$ - | \$ - |
| Tax Increments | - | - | 26,169 |
| Tax Abatement | - | - | - |
| Intergovernmental | 196 | - | - |
| Interest | 41 | 56 | - |
| Contributions and Donations | - | 45,500 | - |
| Miscellaneous | 3,308 | - | - |
| Total Revenues | 75,769 | 45,556 | 26,169 |
| EXPENDITURES | | | |
| Current | | | |
| General Government | 92,991 | - | - |
| Miscellaneous | - | 36,443 | - |
| TIF and Tax Abatement Payments | - | - | 3,979 |
| Total Expenditures | 92,991 | 36,443 | 3,979 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (17,222) | 9,113 | 22,190 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | - | - | - |
| Transfers Out | - | - | (25,000) |
| Total Other Financing Sources (Uses) | - | - | (25,000) |
| NET CHANGE IN FUND BALANCES | (17,222) | 9,113 | (2,810) |
| Fund Balances (Deficit) - Beginning of Year | 57,107 | 53,568 | 2,810 |
| FUND BALANCES (DEFICIT) - END OF YEAR | \$ 39,885 | \$ 62,681 | \$ - |

SPECIAL REVENUE FUNDS

| 240 | 260 | 270 | 276 | 277 |
|-----------------------|------------------|-------------------|--------------------|------------------------------|
| OAKVIEW LAND TRUST | TAX ABATEMENT | REVOLVING LOAN | CABLE FRANCHISE | TIF 99A SENIOR HOUSING |
| \$ - | \$ - | \$ - | \$ - | \$ - |
| 18,589 | - | - | - | 21,816 |
| - | 26,944 | - | - | - |
| - | 127 | - | - | - |
| - | 15 | 1,384 | 63 | - |
| - | - | - | - | - |
| - | - | - | 47,217 | - |
| <u>18,589</u> | <u>27,086</u> | <u>1,384</u> | <u>47,280</u> | <u>21,816</u> |
| 499 | - | - | - | 1,383 |
| - | - | - | - | - |
| - | 21,888 | - | - | 56,475 |
| <u>499</u> | <u>21,888</u> | <u>-</u> | <u>-</u> | <u>57,858</u> |
| 18,090 | 5,198 | 1,384 | 47,280 | (36,042) |
| 144,500 | - | - | - | - |
| - | - | - | - | - |
| <u>144,500</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 162,590 | 5,198 | 1,384 | 47,280 | (36,042) |
| <u>(181,273)</u> | <u>11,038</u> | <u>300,196</u> | <u>35,565</u> | <u>36,042</u> |
| <u>\$ (18,683)</u> | <u>\$ 16,236</u> | <u>\$ 301,580</u> | <u>\$ 82,845</u> | <u>\$ -</u> |

**CITY OF NORTH BRANCH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES (CONTINUED)
 NONMAJOR FUNDS
 YEAR ENDED DECEMBER 31, 2015**

| | SPECIAL REVENUE FUNDS | |
|---|--------------------------------|-------------------------------|
| | 279 KELLY HOUSING TIF | 281 ECUMEN TIF DISTRICT |
| REVENUES | | |
| Taxes | \$ - | \$ - |
| Tax Increments | 67,497 | 124,485 |
| Tax Abatement | - | - |
| Intergovernmental | - | - |
| Interest | 4 | 23 |
| Contributions and Donations | - | - |
| Miscellaneous | - | - |
| Total Revenues | <u>67,501</u> | <u>124,508</u> |
| EXPENDITURES | | |
| Current | | |
| General Government | 1,657 | 1,437 |
| Miscellaneous | - | - |
| TIF and Tax Abatement Payments | 60,747 | 17,843 |
| Total Expenditures | <u>62,404</u> | <u>19,280</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 5,097 | 105,228 |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers In | - | - |
| Transfers Out | (24,500) | (95,000) |
| Total Other Financing Sources (Uses) | <u>(24,500)</u> | <u>(95,000)</u> |
| NET CHANGE IN FUND BALANCES | (19,403) | 10,228 |
| Fund Balances (Deficit) - Beginning of Year | <u>23,208</u> | <u>15,454</u> |
| FUND BALANCES (DEFICIT) - END OF YEAR | <u>\$ 3,805</u> | <u>\$ 25,682</u> |

SPECIAL REVENUE FUNDS

| 286 | 287 | 290 | TOTAL NONMAJOR GOVERNMENTAL FUNDS |
|-------------------------|-------------------------------|--------------------|--|
| SWANSON TIF DISTRICT | NORLITE TIF DISTRICT 2007A | HOUSING SUPPORT | |
| \$ - | \$ - | \$ - | \$ 72,224 |
| 3,938 | 5,820 | - | 268,314 |
| - | - | - | 26,944 |
| - | - | - | 323 |
| - | 1 | 48 | 1,635 |
| - | - | - | 45,500 |
| - | - | - | 50,525 |
| <u>3,938</u> | <u>5,821</u> | <u>48</u> | <u>465,465</u> |
| 319 | 1,365 | - | 99,651 |
| - | - | - | 36,443 |
| 4,559 | 5,238 | - | 170,729 |
| <u>4,878</u> | <u>6,603</u> | <u>-</u> | <u>306,823</u> |
| (940) | (782) | 48 | 158,642 |
| - | - | - | 144,500 |
| - | - | - | (144,500) |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| (940) | (782) | 48 | 158,642 |
| <u>940</u> | <u>2,176</u> | <u>52,874</u> | <u>409,705</u> |
| <u>\$ -</u> | <u>\$ 1,394</u> | <u>\$ 52,922</u> | <u>\$ 568,347</u> |

**CITY OF NORTH BRANCH, MINNESOTA
BALANCE SHEET
DEBT SERVICE FUND BY BOND ISSUE
DECEMBER 31, 2015**

| | DEBT SERVICE FUNDS | | |
|--|---|--|---|
| | 301 2009C G.O. REFUNDING BONDS | 305 G.O. IMP AND REFUNDING BONDS OF 2010A | 315 G.O. REFUNDING BONDS OF 2010B |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ - | \$ 263,910 | \$ 216,882 |
| Receivables | | | |
| Taxes | - | - | - |
| Special Assessments | 39,271 | 19,817 | - |
| Accrued Interest | - | - | - |
| Total Assets | <u>\$ 39,271</u> | <u>\$ 283,727</u> | <u>\$ 216,882</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| Deferred Inflows of Resources | | | |
| Unavailable Revenue on Property Taxes | \$ - | \$ - | \$ - |
| Unavailable Revenue on Special Assessments | 39,271 | 19,817 | - |
| Total Deferred Inflows of Resources | 39,271 | 19,817 | - |
| Fund Balances (Deficits) | | | |
| Restricted | - | 263,910 | 216,882 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 39,271</u> | <u>\$ 283,727</u> | <u>\$ 216,882</u> |

DEBT SERVICE FUNDS

| 316 | 317 | 322 STREET RECONSTRUCTION BONDS OF 2009A | 323 G.O. TIF BONDS OF 2009D | 365 INDUSTRIAL PARK III NOTE |
|---------------------------------|--------------------------|---|-----------------------------------|------------------------------------|
| G.O. REFUNDING BONDS OF 2013 | EQUIPMENT CERTIFICATE | | | |
| \$ 1,400,392 | \$ 1,711 | \$ 39,776 | \$ 186,012 | \$ 125,188 |
| - | - | - | - | - |
| 2,715,063 | - | - | - | - |
| - | - | - | - | - |
| <u>\$ 4,115,455</u> | <u>\$ 1,711</u> | <u>\$ 39,776</u> | <u>\$ 186,012</u> | <u>\$ 125,188</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - |
| 2,715,063 | - | - | - | - |
| <u>2,715,063</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>1,400,392</u> | <u>1,711</u> | <u>39,776</u> | <u>186,012</u> | <u>125,188</u> |
| <u>\$ 4,115,455</u> | <u>\$ 1,711</u> | <u>\$ 39,776</u> | <u>\$ 186,012</u> | <u>\$ 125,188</u> |

**CITY OF NORTH BRANCH, MINNESOTA
BALANCE SHEET
DEBT SERVICE FUND BY BOND ISSUE (CONTINUED)
DECEMBER 31, 2015**

| | DEBT SERVICE FUNDS | | |
|--|--|-------------------------------|--|
| | 387 EDA LEASE REVENUE BONDS OF 2009 | 390 G.O. BONDS OF 2005A | 393 2006B TAX INCREMENT REFUNDING BONDS |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 711,613 | \$ - | \$ 582,967 |
| Receivables | | | |
| Taxes | 9,460 | - | - |
| Special Assessments | - | - | 47,809 |
| Accrued Interest | 5,478 | - | - |
| Total Assets | <u>\$ 726,551</u> | <u>\$ -</u> | <u>\$ 630,776</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| Deferred Inflows of Resources | | | |
| Unavailable Revenue on Property Taxes | \$ 6,156 | \$ - | \$ - |
| Unavailable Revenue on Special Assessments | - | - | 47,809 |
| Total Deferred Inflows of Resources | 6,156 | - | 47,809 |
| Fund Balances (Deficits) | | | |
| Restricted | 720,395 | - | 582,967 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 726,551</u> | <u>\$ -</u> | <u>\$ 630,776</u> |

DEBT SERVICE FUNDS

| 394 | 397 | 398 | TOTAL DEBT SERVICE FUND |
|------------------------|------------------------|------------------------|----------------------------------|
| G.O. BONDS OF 2006C | G.O. BONDS OF 2007A | G.O. BONDS OF 2008A | |
| \$ 16,439 | \$ 238,208 | \$ 291,359 | \$ 4,074,457 |
| - | - | - | 9,460 |
| 74,894 | 708,051 | 1,293,700 | 4,898,605 |
| - | - | - | 5,478 |
| <u>\$ 91,333</u> | <u>\$ 946,259</u> | <u>\$ 1,585,059</u> | <u>\$ 8,988,000</u> |
| | | | |
| \$ - | \$ - | \$ - | \$ 6,156 |
| 74,894 | 708,051 | 1,293,700 | 4,898,605 |
| <u>74,894</u> | <u>708,051</u> | <u>1,293,700</u> | <u>4,904,761</u> |
| 16,439 | 238,208 | 291,359 | 4,083,239 |
| <u>\$ 91,333</u> | <u>\$ 946,259</u> | <u>\$ 1,585,059</u> | <u>\$ 8,988,000</u> |

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
DEBT SERVICE FUND BY BOND ISSUE
YEAR ENDED DECEMBER 31, 2015**

| | DEBT SERVICE FUNDS | | |
|---|---|--|---|
| | 301 2009C G.O. REFUNDING BONDS | 305 G.O. IMP AND REFUNDING BONDS OF 2010A | 315 G.O. REFUNDING BONDS OF 2010B |
| REVENUES | | | |
| Taxes | \$ 96,000 | \$ - | \$ 204,439 |
| Tax Increments | - | - | - |
| Intergovernmental | - | 65,000 | - |
| Special Assessments | 3,604 | 12,296 | - |
| Interest | - | 237 | 194 |
| Total Revenues | <u>99,604</u> | <u>77,533</u> | <u>204,633</u> |
| EXPENDITURES | | | |
| Debt Service | | | |
| Principal | 200,000 | 245,000 | 165,000 |
| Fiscal Agent Fees | 3,100 | 3,850 | 750 |
| Interest | 2,600 | 24,375 | 29,700 |
| Total Expenditures | <u>205,700</u> | <u>273,225</u> | <u>195,450</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (106,096) | (195,692) | 9,183 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | 126,691 | 121,524 | - |
| Transfers Out | (235,026) | - | - |
| Payment to Refunded Bonds | - | - | - |
| Total Other Financing Sources (Uses) | <u>(108,335)</u> | <u>121,524</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | (214,431) | (74,168) | 9,183 |
| Fund Balances (Deficit) - Beginning of Year | <u>214,431</u> | <u>338,078</u> | <u>207,699</u> |
| FUND BALANCES (DEFICIT) - END OF YEAR | <u>\$ -</u> | <u>\$ 263,910</u> | <u>\$ 216,882</u> |

DEBT SERVICE FUNDS

| 316 | 317 | 322 STREET RECONSTRUCTION BONDS OF 2009A | 323 G.O. TIF BONDS OF 2009D | 365 INDUSTRIAL PARK III NOTE |
|---------------------------------|--------------------------|---|-----------------------------------|------------------------------------|
| G.O. REFUNDING BONDS OF 2013 | EQUIPMENT CERTIFICATE | | | |
| \$ - | \$ 16,670 | \$ 49,975 | \$ 248,571 | \$ 86,066 |
| - | - | - | 2,029 | - |
| 88,470 | - | 1,494 | - | - |
| 530,084 | - | - | - | - |
| 1,992 | 2 | 36 | 167 | 112 |
| <u>620,546</u> | <u>16,672</u> | <u>51,505</u> | <u>250,767</u> | <u>86,178</u> |
| 495,000 | 14,700 | 25,000 | 75,000 | 96,504 |
| 725 | - | 750 | 750 | - |
| 70,665 | 1,176 | 22,567 | 161,734 | 10,290 |
| <u>566,390</u> | <u>15,876</u> | <u>48,317</u> | <u>237,484</u> | <u>106,794</u> |
| 54,156 | 796 | 3,188 | 13,283 | (20,616) |
| 184,184 | - | - | - | 124,872 |
| (2,450,000) | - | - | - | - |
| - | - | - | - | - |
| <u>(2,265,816)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>124,872</u> |
| (2,211,660) | 796 | 3,188 | 13,283 | 104,256 |
| 3,612,052 | 915 | 36,588 | 172,729 | 20,932 |
| <u>\$ 1,400,392</u> | <u>\$ 1,711</u> | <u>\$ 39,776</u> | <u>\$ 186,012</u> | <u>\$ 125,188</u> |

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
DEBT SERVICE FUND BY BOND ISSUE (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

| | DEBT SERVICE FUNDS | | |
|---|------------------------------------|------------------------|---|
| | 387 | 390 | 393 |
| | EDA LEASE REVENUE BONDS OF 2009 | G.O. BONDS OF 2005A | 2006B TAX INCREMENT REFUNDING BONDS |
| REVENUES | | | |
| Taxes | \$ 416,824 | \$ - | \$ - |
| Tax Increments | - | - | 272,153 |
| Intergovernmental | - | - | - |
| Special Assessments | - | - | 15,255 |
| Interest | 7,872 | - | 522 |
| Total Revenues | <u>424,696</u> | <u>-</u> | <u>287,930</u> |
| EXPENDITURES | | | |
| Debt Service | | | |
| Principal | 150,000 | 355,000 | 140,000 |
| Fiscal Agent Fees | 2,500 | - | 1,200 |
| Interest | 262,919 | 44,000 | 88,975 |
| Total Expenditures | <u>415,419</u> | <u>399,000</u> | <u>230,175</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 9,277 | (399,000) | 57,755 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | - | 2,452,223 | - |
| Transfers Out | - | - | - |
| Payment to Refunded Bonds | - | (2,450,000) | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>2,223</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | 9,277 | (396,777) | 57,755 |
| Fund Balances (Deficit) - Beginning of Year | <u>711,118</u> | <u>396,777</u> | <u>525,212</u> |
| FUND BALANCES (DEFICIT) - END OF YEAR | <u>\$ 720,395</u> | <u>\$ -</u> | <u>\$ 582,967</u> |

DEBT SERVICE FUNDS

| 394 | 397 | 398 | INTERNAL ELIMINATIONS | TOTAL DEBT SERVICE FUND |
|------------------------|------------------------|------------------------|--------------------------|-------------------------------|
| G.O. BONDS OF 2006C | G.O. BONDS OF 2007A | G.O. BONDS OF 2008A | | |
| \$ - | \$ 21,685 | \$ - | \$ - | \$ 1,140,230 |
| - | - | - | - | 274,182 |
| - | - | - | - | 154,964 |
| 13,847 | 125,353 | 137,971 | - | 838,410 |
| 15 | 214 | 261 | - | 11,624 |
| <u>13,862</u> | <u>147,252</u> | <u>138,232</u> | - | <u>2,419,410</u> |
| 10,000 | 110,000 | 70,000 | - | 2,151,204 |
| 338 | 3,850 | 3,478 | - | 21,291 |
| 3,250 | 50,100 | 54,566 | - | 826,917 |
| <u>13,588</u> | <u>163,950</u> | <u>128,044</u> | - | <u>2,999,412</u> |
| 274 | (16,698) | 10,188 | - | (580,002) |
| - | 11,737 | 6,565 | (2,450,000) | 577,796 |
| - | - | - | 2,450,000 | (235,026) |
| - | - | - | - | (2,450,000) |
| <u>-</u> | <u>11,737</u> | <u>6,565</u> | - | <u>(2,107,230)</u> |
| 274 | (4,961) | 16,753 | - | (2,687,232) |
| <u>16,165</u> | <u>243,169</u> | <u>274,606</u> | - | <u>6,770,471</u> |
| <u>\$ 16,439</u> | <u>\$ 238,208</u> | <u>\$ 291,359</u> | <u>\$ -</u> | <u>\$ 4,083,239</u> |

**CITY OF NORTH BRANCH, MINNESOTA
BALANCE SHEET
CAPITAL PROJECTS FUND BY CAPITAL PROJECT
DECEMBER 31, 2015**

| | CAPITAL PROJECTS | | |
|--|----------------------|----------------------|--------------------------------|
| | 401 | 403 | 432 |
| ASSETS | REVOLVING CAPITAL | PARK IMPROVEMENTS | EQUIPMENT REVOLVING FUND |
| Cash and Cash Equivalents | \$ (44,888) | \$ 86,860 | \$ 2,006 |
| Receivables | | | |
| Accounts | 192,524 | - | - |
| Taxes | 1,064 | - | - |
| Special Assessments | 891 | - | - |
| Prepayments | - | - | - |
| Land Held for Resale | - | - | - |
| Total Assets | <u>\$ 149,591</u> | <u>\$ 86,860</u> | <u>\$ 2,006</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts Payable | \$ 55,572 | \$ - | \$ - |
| Due to Other Funds | - | - | - |
| Total Liabilities | <u>55,572</u> | <u>-</u> | <u>-</u> |
| Deferred Inflows of Resources | | | |
| Unavailable Revenue on Property Taxes | - | - | - |
| Unavailable Revenue on Special Assessments | 891 | - | - |
| Total Deferred Inflows of Resources | <u>891</u> | <u>-</u> | <u>-</u> |
| Fund Balances (Deficits) | | | |
| Nonspendable | | | |
| Prepayments | - | - | - |
| Assigned | 93,128 | 86,860 | 2,006 |
| Unassigned | - | - | - |
| Total Fund Balances (Deficit) | <u>93,128</u> | <u>86,860</u> | <u>2,006</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit) | <u>\$ 149,591</u> | <u>\$ 86,860</u> | <u>\$ 2,006</u> |

CAPITAL PROJECTS

| 455 | 475 | 476 | 478 | 480 |
|----------------------|---------------------------------|-----------------------|--------------------|--------------------------|
| ROAD IMPROVEMENTS | LIBRARY/ COMMUNITY CENTER | INDUSTRIAL PARK IV | PALLETMAN | SAFE ROUTES TO SCHOOL |
| \$ (66,686) | \$ 160,557 | \$ - | \$ (47,314) | \$ - |
| 159,418 | - | - | - | - |
| - | - | 46,766 | - | - |
| 120,890 | - | - | - | - |
| - | - | 944 | - | - |
| - | - | 745,000 | - | - |
| <u>\$ 213,622</u> | <u>\$ 160,557</u> | <u>\$ 792,710</u> | <u>\$ (47,314)</u> | <u>\$ -</u> |
| | | | | |
| \$ 1,138 | \$ - | \$ - | \$ - | \$ - |
| - | - | 2,099,972 | - | - |
| 1,138 | - | 2,099,972 | - | - |
| - | - | 36,796 | - | - |
| 120,890 | - | - | - | - |
| 120,890 | - | 36,796 | - | - |
| - | - | 944 | - | - |
| 91,594 | 160,557 | - | - | - |
| - | - | (1,345,002) | (47,314) | - |
| 91,594 | 160,557 | (1,344,058) | (47,314) | - |
| <u>\$ 213,622</u> | <u>\$ 160,557</u> | <u>\$ 792,710</u> | <u>\$ (47,314)</u> | <u>\$ -</u> |

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**CITY OF NORTH BRANCH, MINNESOTA
BALANCE SHEET
CAPITAL PROJECTS FUND BY CAPITAL PROJECT (CONTINUED)
DECEMBER 31, 2015**

| | CAPITAL PROJECTS | | TOTAL CAPITAL PROJECTS FUND |
|--|----------------------|--------------------|--------------------------------------|
| | 486 | 492 | |
| | RECREATION CENTER | HOUSING PROJECT | |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 48,631 | \$ 37,394 | \$ 176,560 |
| Receivables | | | |
| Accounts | - | - | 351,942 |
| Taxes | - | 4,633 | 52,463 |
| Special Assessments | - | - | 121,781 |
| Prepayments | - | - | 944 |
| Land Held for Resale | - | - | 745,000 |
| Total Assets | <u>\$ 48,631</u> | <u>\$ 42,027</u> | <u>\$ 1,448,690</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts Payable | \$ 4,209 | \$ - | \$ 60,919 |
| Due to Other Funds | - | - | 2,099,972 |
| Total Liabilities | 4,209 | - | 2,160,891 |
| Deferred Inflows of Resources | | | |
| Unavailable Revenue on Property Taxes | - | 3,476 | 40,272 |
| Unavailable Revenue on Special Assessments | - | - | 121,781 |
| Total Deferred Inflows of Resources | - | 3,476 | 162,053 |
| Fund Balances (Deficits) | | | |
| Nonspendable | | | |
| Prepayments | - | - | 944 |
| Assigned | 44,422 | 38,551 | 517,118 |
| Unassigned | - | - | (1,392,316) |
| Total Fund Balances (Deficit) | <u>44,422</u> | <u>38,551</u> | <u>(874,254)</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit) | <u>\$ 48,631</u> | <u>\$ 42,027</u> | <u>\$ 1,448,690</u> |

**CITY OF NORTH BRANCH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUND BY CAPITAL PROJECT
YEAR ENDED DECEMBER 31, 2015**

| | CAPITAL PROJECTS | |
|---|----------------------|----------------------|
| | 401 | 403 |
| | REVOLVING CAPITAL | PARK IMPROVEMENTS |
| REVENUES | | |
| Taxes | \$ - | \$ - |
| Tax Abatement | 1,064 | - |
| Intergovernmental | 242,258 | - |
| Fines and Forfeits | - | - |
| Special Assessments | - | - |
| Interest | - | 78 |
| Refunds and Reimbursements | - | - |
| Total Revenues | 243,322 | 78 |
| EXPENDITURES | | |
| Current | | |
| General Government | - | - |
| Highways and Streets | 216,186 | - |
| Culture and Recreation | - | 1,496 |
| Capital Outlay | - | - |
| Debt Service | | |
| Interest and Fiscal Agent Fees | - | - |
| Total Expenditures | 216,186 | 1,496 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 27,136 | (1,418) |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers In | - | - |
| NET CHANGE IN FUND BALANCES | 27,136 | (1,418) |
| Fund Balances (Deficit) - Beginning of Year | 65,992 | 88,278 |
| FUND BALANCES (DEFICIT) - END OF YEAR | \$ 93,128 | \$ 86,860 |

CAPITAL PROJECTS

| 432 EQUIPMENT REVOLVING FUND | 455 ROAD IMPROVEMENTS | 475 LIBRARY/ COMMUNITY CENTER | 476 INDUSTRIAL PARK IV |
|---------------------------------------|-----------------------------|--|------------------------------|
| \$ - | \$ - | \$ - | \$ 966,640 |
| - | - | - | - |
| - | 60,867 | - | - |
| - | - | - | - |
| - | 26,692 | - | 3,604 |
| 2 | - | 144 | - |
| - | - | - | 12,632 |
| <u>2</u> | <u>87,559</u> | <u>144</u> | <u>982,876</u> |
| - | - | - | 473,963 |
| - | 22,068 | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | 11,105 |
| <u>-</u> | <u>22,068</u> | <u>-</u> | <u>485,068</u> |
| 2 | 65,491 | 144 | 497,808 |
| - | - | - | 235,026 |
| <u>2</u> | <u>65,491</u> | <u>144</u> | <u>732,834</u> |
| <u>2,004</u> | <u>26,103</u> | <u>160,413</u> | <u>(2,076,892)</u> |
| <u>\$ 2,006</u> | <u>\$ 91,594</u> | <u>\$ 160,557</u> | <u>\$ (1,344,058)</u> |

**CITY OF NORTH BRANCH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUND BY CAPITAL PROJECT (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

| | CAPITAL PROJECTS | | |
|---|--------------------|--------------------------|----------------------|
| | 478 | 480 | 486 |
| | PALLETMAN | SAFE ROUTES TO SCHOOL | RECREATION CENTER |
| REVENUES | | | |
| Taxes | \$ - | \$ - | \$ - |
| Tax Abatement | 7,012 | - | - |
| Intergovernmental | 33 | 3,698 | - |
| Fines and Forfeits | - | - | 2,880 |
| Special Assessments | - | - | - |
| Interest | - | - | 43 |
| Refunds and Reimbursements | - | - | 500 |
| Total Revenues | <u>7,045</u> | <u>3,698</u> | <u>3,423</u> |
| EXPENDITURES | | | |
| Current | | | |
| General Government | 253 | - | - |
| Highways and Streets | - | - | - |
| Culture and Recreation | - | - | - |
| Capital Outlay | - | 146 | 7,324 |
| Debt Service | | | |
| Interest and Fiscal Agent Fees | - | - | - |
| Total Expenditures | <u>253</u> | <u>146</u> | <u>7,324</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 6,792 | 3,552 | (3,901) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | - | 896 | - |
| NET CHANGE IN FUND BALANCES | 6,792 | 4,448 | (3,901) |
| Fund Balances (Deficit) - Beginning of Year | <u>(54,106)</u> | <u>(4,448)</u> | <u>48,323</u> |
| FUND BALANCES (DEFICIT) - END OF YEAR | <u>\$ (47,314)</u> | <u>\$ -</u> | <u>\$ 44,422</u> |

| <u>492</u> | <u>TOTAL CAPITAL PROJECTS FUND</u> |
|----------------------------|--|
| <u>HOUSING PROJECT</u> | |
| \$ 93,956 | \$ 1,060,596 |
| - | 8,076 |
| - | 306,856 |
| - | 2,880 |
| - | 30,296 |
| 34 | 301 |
| - | 13,132 |
| 93,990 | 1,422,137 |
| 90,710 | 564,926 |
| - | 238,254 |
| - | 1,496 |
| - | 7,470 |
| - | 11,105 |
| 90,710 | 823,251 |
| 3,280 | 598,886 |
| - | 235,922 |
| 3,280 | 834,808 |
| 35,271 | (1,709,062) |
| \$ 38,551 | \$ (874,254) |

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OTHER REPORTS SECTION



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

Honorable Mayor and
Members of the City Council
City of North Branch
North Branch, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of North Branch (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 10, 2016. Our report includes a reference to other auditors who audited the financial statements of North Branch Municipal Water and Light, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's 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 recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Internal Control Over Financial Reporting (Continued)

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2015-002 and 2015-003 described in the accompanying schedule of findings and recommendations to be 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 2014-001 described in the accompany schedule of findings and recommendations to be a significant deficiency.

Compliance and Other Matters

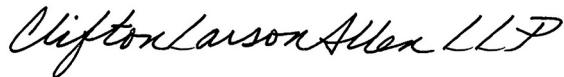
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. We did not audit the City's responses, and, accordingly, we express no opinion on them.

Purpose of this Report

This report is intended solely for the information and use of management, City Council, and state and federal grantor agencies; and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Brainerd, Minnesota
May 10, 2016

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**CITY OF NORTH BRANCH, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2015**

SIGNIFICANT DEFICIENCY

2015-001

LACK OF SEGREGATION OF DUTIES

Criteria: City management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the City. In addition, City management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition and Context: Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control, is not in place. The City has reassigned a number of the previously identified responsibilities; however, due to the number of employees available to assign responsibilities, some weaknesses still exist.

Cause: Size and budget constraints limit the number of personnel within the City.

Effect: The design of the internal controls over financial reporting could affect the ability of the City to record, process, summarize and report financial data consistently with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the City's inability to prevent/detect misappropriation of assets.

Recommendation: We recommend City management be aware of the lack of segregation of duties within the accounting functions and provide oversight to ensure the internal control policies and procedures are being implemented by City staff.

Management Response: *The City will continue to explore the possible further segregation of duties within the City office to minimize the potential risk until it is no longer cost effective for the City.*

**CITY OF NORTH BRANCH, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

MATERIAL WEAKNESSES

2015-002

AUDIT ADJUSTMENTS

Criteria: The City of North Branch's management is responsible for establishing and maintaining internal controls for the proper recording of all the City's accounting transactions, including account coding, reporting of accruals and net position, and cash flows.

Condition and Context: As part of the audit, we proposed material adjustments for the reporting of accruals, reclassifying transactions to proper accounts and note disclosure preparation.

Cause: The City had some complex transactions which required unique handling in order to provide for proper financial statement presentation

Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the City to provide accurate accrual basis financial information.

Recommendation: We recommend City management and financial personnel continue to increase their awareness and knowledge of all procedure and processes involved in recording transactions and reclassifications and develop internal control policies to ensure proper recording of these items.

Management Response: *The City continues to work at minimizing and eliminating these adjustments throughout the year.*

**CITY OF NORTH BRANCH, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

MATERIAL WEAKNESSES (CONTINUED)

2015-003

FINANCIAL STATEMENT PREPARATION

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition and Context: The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures, are complete, and presented in accordance with GAAP. In addition, management has informed us that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures.

Cause: The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

Management Response: *The City will continue to utilize the expertise of the audit firm to prepare the financial statements and related footnote disclosures and will review and approve these prior to the issuance of the annual financial statements.*

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and
Members of the City Council
City of North Branch
North Branch, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of North Branch (the City), Minnesota, as of December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated May 10, 2016. Our report includes a reference to other auditors who audited the financial statements of North Branch Municipal Water and Light Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that the City of North Branch, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. 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 City's noncompliance with the above-referenced provisions.

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

CliftonLarsonAllen LLP

Brainerd, Minnesota
May 10, 2016

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