

CITY OF NORTH BRANCH, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2018

**CITY OF NORTH BRANCH. MINNESOTA
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INTRODUCTORY SECTION

**CITY OF NORTH BRANCH, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2018**

ELECTED OFFICIALS

<u>Position</u>	<u>Term Expires</u>	<u>Name</u>
Mayor	12/31/2018	Kirsten Hagen-Kennedy
Council Member	12/31/2018	Kathy Blomquist
Council Member	12/31/2018	Robert Canada
Council Member	12/31/2020	Kelly Neider
Council Member	12/31/2020	Jim Swenson

APPOINTED OFFICIALS

<u>Position</u>	<u>Name</u>
City Administrator	Renae Fry

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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, Minnesota (City), as of and for the year ended December 31, 2018, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the 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 the 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 City'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 City'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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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

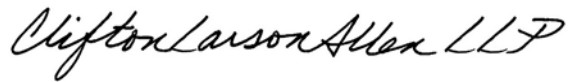
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, the debt service fund by bond issue financial statements, and the capital project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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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
June 13, 2019

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

This section of the City of North Branch's (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2018. The management's discussion and analysis (MD&A) is an element of Required Supplementary Information. Certain comparative information between the current year (2018) and the prior year (2017) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2018 include the following:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$41,523,581 (net position).
- City-wide net position increased by \$2,837,880 over the prior year. This is due primarily to the City controlling costs and maintaining revenue sources.
- As of the close of the current year, the City's governmental funds reported a combined fund balance of \$10,144,511, an increase of \$1,055,942 in comparison to the prior year. Approximately 54.03% of this amount, or \$5,481,541, is restricted for debt service.
- At the end of the current year, unassigned fund balance for the General Fund was \$3,299,657, or 70.32% of General Fund expenditures.

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.

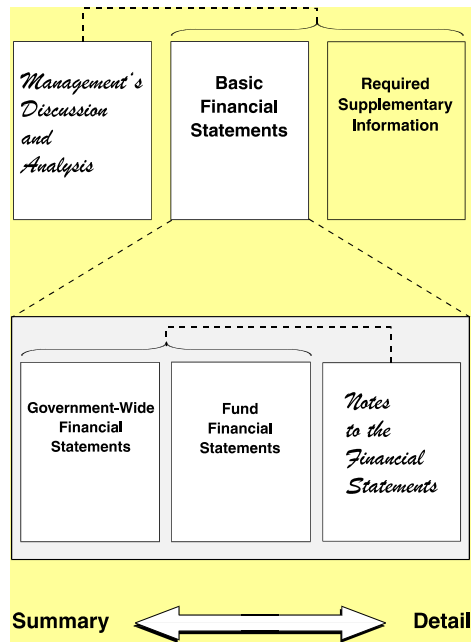
**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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, 2018**

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 nonfinancial 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, 2018**

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, 2018**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's net position was \$41,523,581 on December 31, 2018 (see Table A-1).

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 15,603,386	\$ 14,588,661	\$ 2,541,952	\$ 2,420,656	\$ 18,145,338	\$ 17,009,317
Capital Assets	31,695,056	31,358,531	21,643,385	22,267,852	53,338,441	53,626,383
Total Assets	47,298,442	45,947,192	24,185,337	24,688,508	71,483,779	70,635,700
Deferred Outflows of Resources	1,637,663	2,133,530	175,323	197,257	1,812,986	2,330,787
Current Liabilities	2,281,262	2,233,541	1,070,884	990,860	3,352,146	3,224,401
Long-Term Liabilities	17,463,123	19,371,181	8,876,200	9,554,570	26,339,323	28,925,751
Total Liabilities	19,744,385	21,604,722	9,947,084	10,545,430	29,691,469	32,150,152
Deferred Inflows of Resources	1,938,609	2,031,185	143,106	99,449	2,081,715	2,130,634
Net Position						
Net Investment In Capital Assets	17,680,070	15,620,477	12,716,096	12,653,690	30,396,166	28,274,167
Restricted	10,751,132	10,675,788	-	-	10,751,132	10,675,788
Unrestricted	(1,178,091)	(1,851,450)	1,554,374	1,587,196	376,283	(264,254)
Total Net Position	\$ 27,253,111	\$ 24,444,815	\$ 14,270,470	\$ 14,240,886	\$ 41,523,581	\$ 38,685,701

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$15,243,823 for the year ended December 31, 2018. Property taxes and intergovernmental revenues accounted for 49.4% of total revenue for the year, while user charges accounted for 42.5% of total revenue (see Table A-2).

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program Revenues						
Charges for Services	\$ 695,580	\$ 412,727	\$ 5,781,593	\$ 4,810,128	\$ 6,477,173	\$ 5,222,855
Operating Grants and Contributions	435,648	435,345	-	-	435,648	435,345
Capital Grants and Contributions	1,599,673	1,380,658	110,259	-	1,709,932	1,380,658
General Revenues						
Property Taxes	4,895,390	4,537,360	435	25,023	4,895,825	4,562,383
Tax Increment Financing	485,924	454,473	-	-	485,924	454,473
Grants and Contributions not						
Restricted to Specific Programs	953,165	639,112	-	-	953,165	639,112
Unrestricted Investment Earnings	122,857	25,543	15,438	4,628	138,295	30,171
Miscellaneous Revenues	147,861	152,475	-	-	147,861	152,475
Total Revenues	9,336,098	8,037,693	5,907,725	4,839,779	15,243,823	12,877,472
EXPENSES						
General Government	1,978,615	1,888,616	-	-	1,978,615	1,888,616
Public Safety	2,423,237	2,442,790	-	-	2,423,237	2,442,790
Public Works	1,647,932	1,436,009	-	-	1,647,932	1,436,009
Culture and Recreation	288,801	298,890	-	-	288,801	298,890
Interest on Long-Term Debt	573,950	1,070,090	-	-	573,950	1,070,090
Sewer	-	-	1,474,573	1,410,729	1,474,573	1,410,729
Liquor Store	-	-	3,529,726	2,671,375	3,529,726	2,671,375
Storm Sewer	-	-	489,109	505,328	489,109	505,328
Total Expenses	6,912,535	7,136,395	5,493,408	4,587,432	12,405,943	11,723,827
CHANGE IN NET POSITION BEFORE TRANSFERS						
	2,423,563	901,298	414,317	252,347	2,837,880	1,153,645
Transfers - Primary Government	384,733	356,348	(384,733)	(356,348)	-	-
CHANGE IN NET POSITION	2,808,296	1,257,646	29,584	(104,001)	2,837,880	1,153,645
Net Position - Beginning of Year	24,444,815	21,987,224	14,240,886	14,344,887	38,685,701	36,332,111
Restatement	-	1,199,945	-	-	-	1,199,945
Net Position - Beginning of Year, as Restated	24,444,815	23,187,169	14,240,886	14,344,887	38,685,701	37,532,056
NET POSITION - END OF YEAR	\$ 27,253,111	\$ 24,444,815	\$ 14,270,470	\$ 14,240,886	\$ 41,523,581	\$ 38,685,701

Total revenues surpassed expenses, increasing net position \$2,837,880 over last year.

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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 \$6,912,535.

- Some of the cost was paid by the users of the City's programs (\$695,580).
- Federal and state government payments (\$2,035,321) subsidized certain programs.
- Ad valorem property taxes (\$4,895,390), tax increment financing (\$485,924), and unrestricted state grants (\$953,165) also helped fund the net costs of governmental services.
- Transfers from the City's business-type operations also support governmental operations (\$40,000) and make their portion of scheduled debt payments (\$344,733).

Figure A-3 Sources of City's Revenues for Fiscal 2018

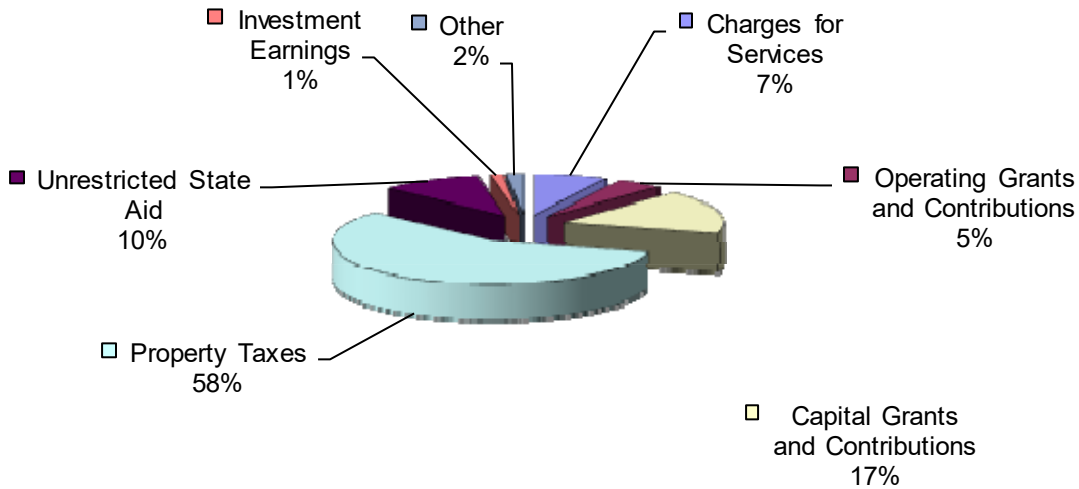
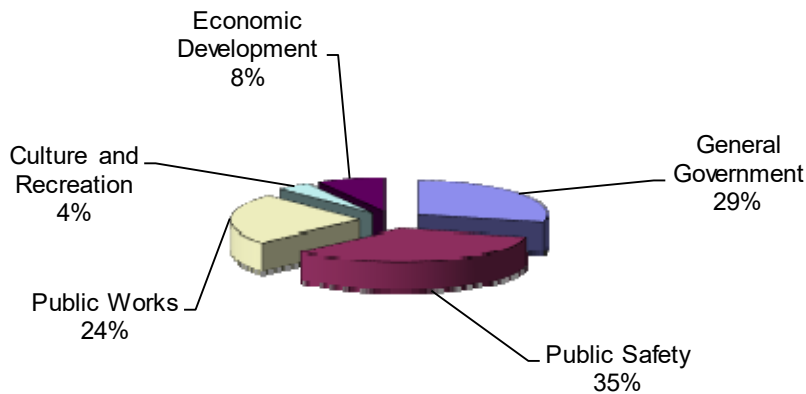


Figure A-4 City's Expenses for Fiscal 2018



**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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	
	2018	2017	2018	2017
GOVERNMENTAL ACTIVITIES				
General Government	\$ 1,978,615	\$ 1,888,616	\$ (1,888,256)	\$ (1,816,882)
Public Safety	2,423,237	2,442,790	(1,404,611)	(1,697,965)
Public Works	1,647,932	1,436,009	(202,855)	(231,200)
Culture and Recreation	288,801	298,890	(188,718)	(240,978)
Interest and Fees on Debt	573,950	1,070,090	(497,194)	(920,640)
Total	<u>\$ 6,912,535</u>	<u>\$ 7,136,395</u>	<u>\$ (4,181,634)</u>	<u>\$ (4,907,665)</u>
BUSINESS-TYPE ACTIVITIES				
Sewer	\$ 1,474,573	\$ 1,410,729	\$ 566,028	\$ 272,594
Liquor Store	3,529,726	2,671,375	(29,429)	129,990
Storm Sewer Utility	489,109	505,328	(138,155)	(179,888)
Total	<u>\$ 5,493,408</u>	<u>\$ 4,587,432</u>	<u>\$ 398,444</u>	<u>\$ 222,696</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 \$10,144,511.

Revenues for the City's governmental funds were \$9,228,626, while total expenditures were \$8,697,388. Revenues increased \$499,947 and expenditures decreased \$709,039 from the prior year primarily due to expenditures and revenues related to the sunrise prairie trail and the street overlay project.

The General Fund's fund balance increased \$422,261 from the prior year. This is due primarily to revenues coming in over budget and expenditures being under budget. In addition, there was a transfer from other funds in the amount of \$80,000.

The Debt Service Fund's fund balance increased \$154,324 from the prior year. This is due primarily to the increase in interest earnings. In addition, there was a transfer from other funds in the amount of \$564,733.

The Capital Projects Fund's fund balance increased \$548,510, due primarily due a decrease in capital outlay purchases.

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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

Business-Type Funds

Net position in the Sewer Fund increased \$276,628. This increase is primarily due to an increase in sewer rates and a decrease in interest expense.

Net position in the Municipal Liquor Store Fund decreased \$68,517. The decrease in net position is due to an increase in personal services expenses.

Net position in the Storm Sewer Utility Fund decreased \$178,527. This is primarily due to charges for services not covering annual depreciation expense.

General Fund

The General Fund includes the primary operations of the City in providing services to citizens.

The following schedule presents a summary of General Fund revenues:

**Table A-4
General Fund Revenues**

Fund	Year Ended		Change
	December 31, 2018	December 31, 2017	Increase (Decrease)
Taxes	\$ 3,044,033	\$ 2,596,986	\$ 447,047
Tax Increments	38,443	38,168	275
Special Assessments	4,873	10,050	(5,177)
Licenses and Permits	394,341	217,740	176,601
Intergovernmental	1,122,537	1,037,036	85,501
Charges for Services	108,767	121,939	(13,172)
Fines and Forfeits	25,383	20,779	4,604
Interest	46,609	22,956	23,653
Refunds and Reimbursements	39,222	67,066	(27,844)
Contributions and Donations	48,698	-	48,698
Miscellaneous and Other	21,455	15,492	5,963
Total General Fund Revenues	<u>\$ 4,894,361</u>	<u>\$ 4,148,212</u>	<u>\$ 746,149</u>

Revenues in the General Fund increased \$746,149 from the previous year. The primary reason for the increase is due to the increase in taxes resulting from the increase in the portion of the levy allocated to the General Fund.

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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, 2018	December 31, 2017	Increase (Decrease)
General Government	\$ 1,112,065	\$ 923,814	\$ 188,251
Public Safety	2,213,833	2,119,938	93,895
Highway and Streets	988,418	829,897	158,521
Culture and Recreation	237,784	245,573	(7,789)
Capital Outlay	139,971	-	139,971
Total Expenditures	<u>\$ 4,692,071</u>	<u>\$ 4,119,222</u>	<u>\$ 572,849</u>

The General Fund's expenditures increased \$572,849 from 2017. 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 \$189,596 more than expected. This is primarily due to more than expected tax increments, licenses and permits, intergovernmental revenues, charges for services, and refunds and reimbursements.
- The actual expenditures were \$131,137 less than budget. This is primarily due to the City's prudent spending.

CAPITAL ASSETS

By the end of 2018, the City had invested approximately \$53,300,000 (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 3.A.5 to the financial statements). Total depreciation expense for the year was \$1,923,790 (including the enterprise funds).

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 8,285,709	\$ 8,279,742	\$ 354,454	\$ 354,454	\$ 8,640,163	\$ 8,634,196
Construction-in-Progress	549,006	143,289	50,016	-	599,022	143,289
Buildings and Improvements	3,422,319	3,422,319	14,347,246	14,347,246	17,769,565	17,769,565
Infrastructure	30,202,030	29,499,325	-	-	30,202,030	29,499,325
Machinery and Equipment	1,753,822	1,651,554	377,502	317,166	2,131,324	1,968,720
Vehicles	2,964,390	2,926,230	-	-	2,964,390	2,926,230
Distribution and Collection System	-	-	20,671,785	20,556,508	20,671,785	20,556,508
Less: Accumulated Depreciation	(15,482,220)	(14,563,928)	(14,157,618)	(13,307,522)	(29,639,838)	(27,871,450)
Total	<u>\$ 31,695,056</u>	<u>\$ 31,358,531</u>	<u>\$ 21,643,385</u>	<u>\$ 22,267,852</u>	<u>\$ 53,338,441</u>	<u>\$ 53,626,383</u>

**CITY OF NORTH BRANCH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

LONG-TERM LIABILITIES

At year-end, the City had approximately \$26,600,000 in long-term liabilities outstanding. The City's governmental activities and business-type activities net long-term debt decreased \$2,226,115.

- Principal payments on governmental activities debt totaled \$1,700,000 in 2018.
- Principal payments on business type activities debt totaled \$680,000 in 2018.

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

	2018	2017
GOVERNMENTAL ACTIVITIES		
General Obligation Bonds	\$ 980,000	\$ 1,175,000
G.O. Improvement Bonds	4,600,000	5,885,000
Tax Increment Bonds	7,945,000	8,165,000
Revenue Bonds (EDA)	3,535,000	3,535,000
Equipment Certificates of Indebtedness	-	14,700
Capital Lease Payable	139,971	-
Net Bond Premium (Discount)	135,786	151,820
Compensated Absences	260,073	226,988
Total Governmental Activities	17,595,830	19,153,508
BUSINESS-TYPE ACTIVITIES		
General Obligation Bonds	8,880,000	9,560,000
Compensated Absences Payable	81,688	63,252
Bond Premium	47,289	54,162
Total Business-Type Activities	9,008,977	9,677,414
Total City-Wide Debt	<u>\$ 26,604,807</u>	<u>\$ 28,830,922</u>

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 Renae Fry, Administrator, 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, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Water and Light Commission
ASSETS				
Cash and Investments	\$ 5,661,422	\$ 1,584,071	\$ 7,245,493	\$ 2,377,476
Cash Held in Escrow	3,000,843	-	3,000,843	-
Receivables				
Taxes	160,675	7	160,682	-
Accounts	66,598	-	66,598	900,522
Special Assessments	3,223,706	73,429	3,297,135	-
Other	-	665	665	-
Due from Other Governments	1,742,838	-	1,742,838	-
Due from Component Unit	18,228	351,925	370,153	-
Due from Primary Government	-	-	-	73,696
Inventory	-	463,835	463,835	244,583
Prepaid Items	228,985	68,020	297,005	7,224
Land Held for Resale	1,328,160	-	1,328,160	-
Restricted Assets				
Cash and Investments	-	-	-	3,185,314
Net Pension Asset	171,931	-	171,931	-
Capital Assets				
Land and Construction In Progress	8,834,715	404,470	9,239,185	98,930
Other Capital Assets, Net of Depreciation	22,860,341	21,238,915	44,099,256	20,892,905
Total Assets	<u>47,298,442</u>	<u>24,185,337</u>	<u>71,483,779</u>	<u>27,780,650</u>
DEFERRED OUTFLOWS OF RESOURCES				
Refunding Loss on Bonds	18,213	-	18,213	-
Pension Related	1,619,450	175,323	1,794,773	194,943
Total Deferred Outflows of Resources	<u>1,637,663</u>	<u>175,323</u>	<u>1,812,986</u>	<u>194,943</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	158,763	150,116	308,879	229,900
Accrued Liabilities	64,889	26,373	91,262	18,901
Customer Deposits	34,664	-	34,664	127,784
Rate Stabilization Reserve	-	12,199	12,199	147,880
Accrued Interest Payable	214,019	94,636	308,655	96,564
Due to Other Governments	3,148	33,561	36,709	-
Due to Primary Government	-	-	-	370,153
Due to Component Unit	39,671	34,025	73,696	-
Long-Term Liabilities				
Net Pension Liability	1,633,401	587,197	2,220,598	593,592
Due Within One Year	1,766,108	719,974	2,486,082	1,065,000
Due in More than One Year, Net of Unamortized Discount/Premium	15,829,722	8,289,003	24,118,725	11,011,487
Total Liabilities	<u>19,744,385</u>	<u>9,947,084</u>	<u>29,691,469</u>	<u>13,661,261</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related	1,938,609	143,106	2,081,715	219,749
NET POSITION				
Net Investment in Capital Assets	17,680,070	12,716,096	30,396,166	9,002,835
Restricted For:				
Debt Service	8,338,538	-	8,338,538	-
Redemption and Replacement Funding	-	-	-	3,088,750
Economic Development	377,590	-	377,590	-
Tax Increment Financing	90,185	-	90,185	-
Highway Projects	1,715,695	-	1,715,695	-
Capital Outlay	57,193	-	57,193	-
Fire Pension	171,931	-	171,931	-
Unrestricted	(1,178,091)	1,554,374	376,283	2,002,998
Total Net Position	<u>\$ 27,253,111</u>	<u>\$ 14,270,470</u>	<u>\$ 41,523,581</u>	<u>\$ 14,094,583</u>

See accompanying Notes to Financial Statements.

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,978,615	\$ 24,910	\$ 65,449	\$ -
Public Safety	2,423,237	134,053	193,356	691,217
Public Works	1,647,932	536,617	4	908,456
Culture and Recreation	288,801	-	100,083	-
Debt Service	573,950	-	76,756	-
Total Governmental Activities	<u>6,912,535</u>	<u>695,580</u>	<u>435,648</u>	<u>1,599,673</u>
Business-Type Activities				
Sewer	1,474,573	1,957,447	-	83,154
Liquor	3,529,726	3,500,297	-	-
Storm Sewer Utility	489,109	323,849	-	27,105
Total Business-Type Activities	<u>5,493,408</u>	<u>5,781,593</u>	<u>-</u>	<u>110,259</u>
Total Primary Government	<u>\$ 12,405,943</u>	<u>\$ 6,477,173</u>	<u>\$ 435,648</u>	<u>\$ 1,709,932</u>
Component Unit				
Water and Light Commission	<u>\$ 5,578,728</u>	<u>\$ 6,731,695</u>	<u>\$ -</u>	<u>\$ 113,084</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

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
\$ (1,888,256)	\$ -	\$ (1,888,256)	\$ -
(1,404,611)	-	(1,404,611)	-
(202,855)	-	(202,855)	-
(188,718)	-	(188,718)	-
(497,194)	-	(497,194)	-
<u>(4,181,634)</u>	<u>-</u>	<u>(4,181,634)</u>	<u>-</u>
-	566,028	566,028	-
-	(29,429)	(29,429)	-
-	(138,155)	(138,155)	-
<u>-</u>	<u>398,444</u>	<u>398,444</u>	<u>-</u>
<u>(4,181,634)</u>	<u>398,444</u>	<u>(3,783,190)</u>	<u>-</u>
-	-	-	1,266,051
4,895,390	435	4,895,825	-
485,924	-	485,924	-
953,165	-	953,165	-
122,857	15,438	138,295	7,869
93,664	-	93,664	32,606
54,197	-	54,197	-
384,733	(384,733)	-	-
<u>6,989,930</u>	<u>(368,860)</u>	<u>6,621,070</u>	<u>40,475</u>
2,808,296	29,584	2,837,880	1,306,526
24,444,815	14,240,886	38,685,701	12,788,057
<u>\$ 27,253,111</u>	<u>\$ 14,270,470</u>	<u>\$ 41,523,581</u>	<u>\$ 14,094,583</u>

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FUND FINANCIAL STATEMENTS

**CITY OF NORTH BRANCH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and Investments	\$ 2,119,249	\$ 2,396,417	\$ 538,571	\$ 607,185	\$ 5,661,422
Cash Held in Escrow	-	3,000,843	-	-	3,000,843
Receivables					
Accounts	3,116	1,844	61,638	-	66,598
Taxes	97,998	28,648	30,405	3,624	160,675
Special Assessments	9,746	3,125,390	88,570	-	3,223,706
Due From Other Funds	1,351,913	-	-	-	1,351,913
Due From Other Governments	13,913	-	1,715,695	13,230	1,742,838
Due From Component Unit	18,228	-	-	-	18,228
Prepaid Items	226,693	-	1,080	1,212	228,985
Land Held for Resale	-	-	1,328,160	-	1,328,160
Total Assets	\$ 3,840,856	\$ 8,553,142	\$ 3,764,119	\$ 625,251	\$ 16,783,368
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 104,923	\$ 500	\$ 48,098	\$ 5,242	\$ 158,763
Accrued Liabilities	64,027	-	-	1,562	65,589
Other Liabilities	34,664	-	-	-	34,664
Due to Other Funds	-	85	1,351,828	-	1,351,913
Due to Other Governments	2,448	-	-	-	2,448
Due to Component Unit	24,202	-	15,469	-	39,671
Total Liabilities	230,264	585	1,415,395	6,804	1,653,048
Deferred Inflows of Resources					
Unavailable Revenue - Property Taxes	74,596	6,975	23,674	2,648	107,893
Unavailable Revenue - Special Assessments	9,646	3,064,041	88,534	-	3,162,221
Unavailable Revenue - State Aid	-	-	1,715,695	-	1,715,695
Total Deferred Inflows of Resources	84,242	3,071,016	1,827,903	2,648	4,985,809
Fund Balances (Deficits)					
Nonspendable					
Prepaid Items	226,693	-	1,080	1,212	228,985
Land Held for Resale	-	-	1,328,160	-	1,328,160
Restricted	-	5,481,541	-	524,968	6,006,509
Committed	-	-	-	89,619	89,619
Unassigned	3,299,657	-	(808,419)	-	2,491,238
Total Fund Balances (Deficits)	3,526,350	5,481,541	520,821	615,799	10,144,511
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,840,856	\$ 8,553,142	\$ 3,764,119	\$ 625,251	\$ 16,783,368

See accompanying Notes to Financial Statements

**CITY OF NORTH BRANCH, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS		\$ 10,144,511
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.		31,695,056
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	\$ 171,931	
Net Pension Liability	(1,633,401)	
Deferred Inflows of Resources - Pension Related	(1,938,609)	
Deferred Outflows of Resources - Pension Related	<u>1,619,450</u>	(1,780,629)
Some of the City's property taxes, special assessments and state aid 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.		4,985,809
The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds.		18,213
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.		(214,019)
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	(17,060,000)	
Unamortized (Premiums) Discounts	(135,786)	
Obligations Under Capital Leases	(139,971)	
Compensated Absences Payable	<u>(260,073)</u>	<u>(17,595,830)</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 27,253,111</u>

See accompanying Notes to Financial Statements

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes	\$ 3,044,033	\$ 697,283	\$ 1,038,528	\$ 149,061	\$ 4,928,905
Tax Increments	38,443	244,747	-	190,107	473,297
Tax Abatement	-	-	6,243	6,384	12,627
Licenses and Permits	394,341	-	-	-	394,341
Intergovernmental	1,122,537	76,756	721,604	689	1,921,586
Charges for Services	108,767	-	-	-	108,767
Fines and Forfeits	25,383	-	44,550	-	69,933
Special Assessments	4,873	788,662	17,225	-	810,760
Interest Earnings	46,609	80,397	6,922	6,229	140,157
Refunds and Reimbursements	39,222	-	20,727	-	59,949
Contributions and Donations	48,698	-	-	30,000	78,698
Miscellaneous	21,455	-	152,961	55,190	229,606
Total Revenues	<u>4,894,361</u>	<u>1,887,845</u>	<u>2,008,760</u>	<u>437,660</u>	<u>9,228,626</u>
EXPENDITURES					
Current					
General Government	1,112,065	-	566,468	137,552	1,816,085
Public Safety	2,213,833	-	-	44,461	2,258,294
Highways and Streets	988,418	-	621,754	-	1,610,172
Culture and Recreation	237,784	-	-	-	237,784
Capital Outlay	139,971	-	250,893	-	390,864
TIF and Tax Abatement Payments	-	-	-	64,800	64,800
Debt Service					
Principal	-	1,714,700	-	-	1,714,700
Fiscal Agent Fees	-	20,601	-	-	20,601
Interest	-	562,953	21,135	-	584,088
Total Expenditures	<u>4,692,071</u>	<u>2,298,254</u>	<u>1,460,250</u>	<u>246,813</u>	<u>8,697,388</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	202,290	(410,409)	548,510	190,847	531,238
OTHER FINANCING SOURCES (USES)					
Transfers In	80,000	564,733	-	-	644,733
Transfers Out	-	-	-	(260,000)	(260,000)
Capital Lease Proceeds	139,971	-	-	-	139,971
Total Other Financing Sources (Uses)	<u>219,971</u>	<u>564,733</u>	<u>-</u>	<u>(260,000)</u>	<u>524,704</u>
NET CHANGE IN FUND BALANCES	422,261	154,324	548,510	(69,153)	1,055,942
Fund Balances (Deficit) - Beginning of Year	3,104,089	5,327,217	(27,689)	684,952	9,088,569
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 3,526,350</u>	<u>\$ 5,481,541</u>	<u>\$ 520,821</u>	<u>\$ 615,799</u>	<u>\$ 10,144,511</u>

See accompanying Notes to Financial Statements

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**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, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,055,942

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 capital outlays exceeded depreciation in the current period.

Capital Outlay	\$ 1,410,219	
Depreciation Expense	<u>(1,073,694)</u>	336,525

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.

38,114

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:

Capital Lease Proceeds	(139,971)	
Repayment of Debt Principal	1,700,000	
Change in Accrued Interest Expense	(1,877)	
Payment on Equipment Certificate	14,700	
Refunding Loss	(4,553)	
Amortization of Bond Premium (Discount)	<u>16,034</u>	1,584,333

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		(33,085)
--------------------------------	--	----------

Delinquent property taxes, special assessments, and state aid 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, 2017	(5,159,342)	
Deferred Inflows of Resources - December 31, 2018	<u>4,985,809</u>	<u>(173,533)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 2,808,296</u></u>
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**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	SEWER FUND	MUNICIPAL LIQUOR STORE FUND	STORM SEWER UTILITY FUND	TOTALS
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash and Investments	\$ 1,089,712	\$ 67,843	\$ 426,516	\$ 1,584,071
Receivables				
Taxes	7	-	-	7
Certified Delinquent Utility Bills	65,653	-	7,776	73,429
Other	-	665	-	665
Due from Component Units	302,217	-	49,708	351,925
Inventories	-	463,835	-	463,835
Prepaid Items	35,735	29,432	2,853	68,020
Total Current Assets	1,493,324	561,775	486,853	2,541,952
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	243,101	94,899	39,502	377,502
Infrastructure	11,517,062	-	9,154,723	20,671,785
Construction in Process	50,016	-	-	50,016
	25,515,504	804,820	9,480,679	35,801,003
Less: Accumulated Depreciation	(9,890,363)	(345,247)	(3,922,008)	(14,157,618)
Net Capital Assets	15,625,141	459,573	5,558,671	21,643,385
Total Assets	17,118,465	1,021,348	6,045,524	24,185,337
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	45,028	95,725	34,570	175,323

See accompanying Notes to Financial Statements.

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	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	\$ 128,698	\$ 19,125	\$ 2,293	\$ 150,116
Salaries and Wages Payable	6,607	14,638	5,128	26,373
Due to Other Governments	-	33,561	-	33,561
Due to Component Unit	34,025	-	-	34,025
Unearned Revenue	12,199	-	-	12,199
Accrued Interest Payable	91,367	1,838	1,431	94,636
Accrued Compensated Absences	1,344	2,324	1,306	4,974
Bonds Payable	630,000	70,000	15,000	715,000
Total Current Liabilities	<u>904,240</u>	<u>141,486</u>	<u>25,158</u>	<u>1,070,884</u>
LONG-TERM LIABILITIES				
Net Pension Liability	150,810	320,605	115,782	587,197
Bonds Payable (Net of Unamortized Bond Discounts)	8,130,078	-	82,211	8,212,289
Accrued Compensated Absences	20,734	35,839	20,141	76,714
Total Long-Term Liabilities	<u>8,301,622</u>	<u>356,444</u>	<u>218,134</u>	<u>8,876,200</u>
Total Liabilities	9,205,862	497,930	243,292	9,947,084
DEFERRED INFLOWS OF RESOURCES				
Pension Related	36,754	78,135	28,217	143,106
NET POSITION				
Net Investment in Capital Assets	6,865,063	389,573	5,461,460	12,716,096
Unrestricted	1,055,814	151,435	347,125	1,554,374
Total Net Position	<u>\$ 7,920,877</u>	<u>\$ 541,008</u>	<u>\$ 5,808,585</u>	<u>\$ 14,270,470</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, 2018

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTALS
	SEWER FUND	MUNICIPAL LIQUOR STORE FUND	STORM SEWER UTILITY FUND	
OPERATING REVENUES				
Sales	\$ -	\$ 3,500,297	\$ -	\$ 3,500,297
Costs of Goods Sold	-	(2,548,169)	-	(2,548,169)
Charges for Services	1,957,447	-	323,849	2,281,296
Total Gross Profit and Operating Revenues	<u>1,957,447</u>	<u>952,128</u>	<u>323,849</u>	<u>3,233,424</u>
OPERATING EXPENSES				
Personal Services	291,651	693,133	208,407	1,193,191
Materials and Supplies	39,808	17,981	5,846	63,635
Contractual Services	281,291	235,472	43,113	559,876
Depreciation	591,834	29,769	228,493	850,096
Miscellaneous Expense	24,852	-	-	24,852
Total Operating Expenses	<u>1,229,436</u>	<u>976,355</u>	<u>485,859</u>	<u>2,691,650</u>
OPERATING INCOME (LOSS)	728,011	(24,227)	(162,010)	541,774
NONOPERATING REVENUES (EXPENSES)				
Property Taxes	435	-	-	435
Investment Earnings	10,483	912	4,043	15,438
Interest	(243,846)	(4,752)	(3,219)	(251,817)
Fiscal Agent Fees	(1,291)	(450)	(31)	(1,772)
Total Nonoperating Revenues (Expenses)	<u>(234,219)</u>	<u>(4,290)</u>	<u>793</u>	<u>(237,716)</u>
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	493,792	(28,517)	(161,217)	304,058
CAPITAL CONTRIBUTIONS	83,154	-	27,105	110,259
TRANSFERS OUT	(300,318)	(40,000)	(44,415)	(384,733)
Total Transfers and Capital Contributions	<u>(217,164)</u>	<u>(40,000)</u>	<u>(17,310)</u>	<u>(274,474)</u>
CHANGE IN NET POSITION	276,628	(68,517)	(178,527)	29,584
Net Position - Beginning of Year	7,644,249	609,525	5,987,112	14,240,886
NET POSITION - END OF YEAR	<u>\$ 7,920,877</u>	<u>\$ 541,008</u>	<u>\$ 5,808,585</u>	<u>\$ 14,270,470</u>

See accompanying Notes to Financial Statements.

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	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	\$ 1,960,940	\$ 3,499,632	\$ 324,491	\$ 5,785,063
Cash Paid to Employees for Services	(284,139)	(680,409)	(203,967)	(1,168,515)
Cash Paid to Suppliers for Goods and Services	(267,486)	(2,764,824)	(53,433)	(3,085,743)
Net Cash Provided by Operating Activities	1,409,315	54,399	67,091	1,530,805
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Decrease in Due From Other Funds	667	-	-	667
Transfers to Other Funds	(300,318)	(40,000)	(44,415)	(384,733)
Net Cash Used by Noncapital Financing Activities	(299,651)	(40,000)	(44,415)	(384,066)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(87,684)	-	(27,686)	(115,370)
Special Assessments	(7,998)	-	105	(7,893)
Interest Paid	(260,641)	(6,908)	(3,865)	(271,414)
Principal Payments on Long-Term Debt	(600,000)	(65,000)	(15,000)	(680,000)
Net Cash Used by Capital and Related Financing Activities	(956,323)	(71,908)	(46,446)	(1,074,677)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Received	11,523	912	4,544	16,979
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	164,864	(56,597)	(19,226)	89,041
Cash and Cash Equivalents - Beginning of Year	924,848	124,440	445,742	1,495,030
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,089,712	\$ 67,843	\$ 426,516	\$ 1,584,071

See accompanying Notes to Financial Statements.

**CITY OF NORTH BRANCH, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	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)	\$ 728,011	\$ (24,227)	\$ (162,010)	\$ 541,774
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	591,834	29,769	228,493	850,096
(Increase) Decrease in Assets and Deferred Outflows of Resources:				
Due from Component Units	2,316	-	642	2,958
Other Accounts Receivable	-	(665)	-	(665)
Inventories	-	39,592	(2,853)	36,739
Prepaid Items	(35,735)	(29,432)	-	(65,167)
Deferred Outflows - Pension	13,015	(4,276)	13,195	21,934
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:				
Accounts Payable	119,312	(66,354)	1,435	54,393
Accrued Liabilities	2,479	1,886	1,875	6,240
Other Liabilities	(11,022)	-	-	(11,022)
Accrued Compensated Absences	5,033	10,838	2,565	18,436
Due to Other Governments	-	5,337	-	5,337
Due to Component Units	(10,956)	-	-	(10,956)
Deferred Inflows - Pension	7,491	32,030	4,136	43,657
Net Pension Liability	(14,662)	59,901	(20,387)	24,852
Unearned Revenue	12,199	-	-	12,199
Net Cash Provided by Operating Activities	<u>\$ 1,409,315</u>	<u>\$ 54,399</u>	<u>\$ 67,091</u>	<u>\$ 1,530,805</u>
NONCASH TRANSACTIONS				
Capital Contributions	\$ 83,154	\$ -	\$ 27,105	\$ 110,259

See accompanying Notes to Financial Statements.

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**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 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 a 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 activities 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 Projects Fund – The Capital Projects 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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.

5. 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% 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% 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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)

6. 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.

7. 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.

8. 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.

9. 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 acquisition value at the date of donation.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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)

9. 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.

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

10. 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 Notes 4 and 5 to the financial statements.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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)

11. 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.

12. 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.

13. 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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. 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, 2018, the unassigned fund balance of the General Fund was 70.32% of the 2018 budgeted General Fund expenditures.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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)

14. 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 occur 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 Notes 4 and 5 to the financial statements.

15. 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.

16. 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 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, 2018 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.

2. Investments

The City's investment policy is to follow Minnesota Statutes, which reduces the City's exposure to credit, custodial credit, and interest rate risks. The City's investment policy allows investment in the follow types of investments:

- 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.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

- 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 diversification of the duration of fixed-income investments held at a given time to reduce interest rate risk and to ensure that 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, 2018 are as follows:

Investment Type	Total Fair Value	Less Than One Year	1 - 2 Years	3 - 5 Years	More than 5 Years
Money Market	\$ 1,288,134	\$ 1,288,134	\$ -	\$ -	\$ -
Federal Home Loan Mtg. Corp.	13,968	-	-	220	13,748
FNMA	3,005,371	3,000,358	-	2,900	2,113
Total	<u>\$ 4,307,473</u>	<u>\$ 4,288,492</u>	<u>\$ -</u>	<u>\$ 3,120</u>	<u>\$ 15,861</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 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
Money Market	Not Rated	\$ 1,288,134
Federal Home Loan Mtg Corp.	Not Rated	13,968
FNMA	AA+	3,000,358
FNMA	Not Rated	5,013
Total		<u>\$ 4,307,473</u>

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

Cash and Investments as of December 31, 2018 are as follows:

Cash on Hand	\$ 2,500
Checking	5,324,527
Savings	611,836
Investments	4,307,473
Total Cash and Investments	<u>\$ 10,246,336</u>

The City’s balances of cash and investments by fund type consisted of the following at December 31, 2018:

	Balance
Cash and Investments - Governmental Funds	\$ 5,661,422
Cash Held in Escrow - Governmental Funds	3,000,843
Cash and Investments - Proprietary Funds	1,584,071
Total Cash and Cash Equivalents	<u>\$ 10,246,336</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Fair Value Measurements

The City uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The City follows accounting principles generally accepted in the United States of America that define fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

Assets measured at fair value on a recurring basis:

Type	Level 1	Level 2	Level 3	Total
FNMA	\$ -	\$ 3,005,371	\$ -	\$ 3,005,371
FHLMC	-	13,968	-	13,968
Total	<u>\$ -</u>	<u>\$ 3,019,339</u>	<u>\$ -</u>	3,019,339
Money Market Accounts				1,288,134
Total Investments				<u>\$ 4,307,473</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Interfund Receivables, Payables, and Transfers

At December 31, 2018, due from/to other funds were as follows:

Due To	Due From	Amount
General Fund	Debt Service Fund	\$ 85
General Fund	Capital Projects Fund	1,351,828
		<u>\$ 1,351,913</u>

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	\$ 73,696
Primary Government	Component Unit	370,153
Total		<u>\$ 443,849</u>

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, 2018, were as follows:

	Transfer In:		
	General Fund	Debt Service Fund	Total
Transfer Out:			
<u>Primary Government</u>			
Nonmajor Governmental Funds	\$ 40,000	\$ 220,000	\$ 260,000
Sewer Fund	-	300,318	300,318
Municipal Liquor Store Fund	40,000	-	40,000
Storm Sewer Utility Fund	-	44,415	44,415
Total	<u>\$ 80,000</u>	<u>\$ 564,733</u>	<u>\$ 644,733</u>

The transfer from Nonmajor Governmental Funds (Cable Fund and Ecumen TIF District Fund) to the General and Debt Service Funds was for debt service payments. 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.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the Primary Government, Governmental Activities for the year ended December 31, 2018, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 8,279,742	\$ 5,967	\$ -	\$ 8,285,709
Construction in Progress	143,289	503,522	97,805	549,006
Total Capital Assets, Not Being Depreciated:	8,423,031	509,489	97,805	8,834,715
Capital Assets, Being Depreciated				
Buildings and Improvements	3,422,319	-	-	3,422,319
Machinery and Equipment	1,651,554	207,885	105,617	1,753,822
Vehicles	2,926,230	87,945	49,785	2,964,390
Infrastructure	29,499,325	702,705	-	30,202,030
Total Capital Assets, Being Depreciated	37,499,428	998,535	155,402	38,342,561
Less Accumulated Depreciation for				
Buildings and Improvements	1,481,226	91,191	-	1,572,417
Machinery and Equipment	1,367,935	39,035	105,617	1,301,353
Vehicles	2,024,109	174,942	49,785	2,149,266
Infrastructure	9,690,658	768,526	-	10,459,184
Total Accumulated Depreciation	14,563,928	1,073,694	155,402	15,482,220
Total Capital Assets, Being Depreciated, Net	22,935,500	(75,159)	-	22,860,341
Governmental Activities Capital Assets, Net	<u>\$ 31,358,531</u>	<u>\$ 434,330</u>	<u>\$ 97,805</u>	<u>\$ 31,695,056</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

Capital asset activity for the Primary Government, Business-Type Activities for the year ended December 31, 2018, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 354,454	\$ -	\$ -	\$ 354,454
Construction in Process	-	50,016	-	50,016
Total Capital Assets, Not Being Depreciated	354,454	50,016	-	404,470
Capital Assets, Being Depreciated				
Building and Improvements	14,347,246	-	-	14,347,246
Equipment	317,166	60,336	-	377,502
Infrastructure	20,556,508	115,277	-	20,671,785
Total Capital Assets, Being Depreciated	35,220,920	175,613	-	35,396,533
Less Accumulated Depreciation For				
Building and Improvements	5,218,390	319,848	-	5,538,238
Equipment	150,272	24,999	-	175,271
Infrastructure	7,938,860	505,249	-	8,444,109
Total Accumulated Depreciation	13,307,522	850,096	-	14,157,618
Total Capital Assets, Being Depreciated, Net	21,913,398	(674,483)	-	21,238,915
Business-Type Activities Capital Assets, Net	\$ 22,267,852	\$ (624,467)	\$ -	\$ 21,643,385

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

Governmental Activities:

General Government	\$ 36,370
Public Safety	154,490
Public Works	850,956
Culture and Recreation	31,878
Total Depreciation Expense - Governmental Activities	<u>\$ 1,073,694</u>

Business-type Activities:

Sewer	\$ 591,834
Municipal Liquor Store	29,769
Storm Sewer Utility	228,493
Total Depreciation Expense - Business-Type Activities	<u>\$ 850,096</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

Long-Term Debt

General Obligation Bonds

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.

During 2018, the City entered into a long-term debt agreement totaling \$139,971 to be used for the purchase of SCBA equipment. The interest rate on this agreement for the term of the agreement is 3.59% with annual payments of \$50,046.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

Long-Term Debt (Continued)

As of December 31, 2018, 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 Reconstruction Bonds	3.00-5.00%	\$ 590,000	\$ 405,000
2010B GO Refunding Bonds	0.65-3.30%	1,720,000	575,000
Total General Obligation Bonds		<u>2,310,000</u>	<u>980,000</u>
GENERAL OBLIGATION IMPROVEMENT BONDS			
2007A GO Improvement Bonds	4.00-4.75%	1,715,000	710,000
2008A GO Improvement Bonds	2.70-4.25%	1,725,000	1,120,000
2010A GO Improvement and Refunding Bonds	2.00-3.50%	1,955,000	30,000
2013A GO Improvement Refunding Bonds	0.55-2.00%	5,920,000	2,695,000
2017B GO Refunding Improvement Refunding Bonds	3.00%	55,000	45,000
Total General Obligation Improvement Bonds		<u>11,370,000</u>	<u>4,600,000</u>
GENERAL OBLIGATION REVENUE BONDS			
2017 Taxable Refunding Lease Revenue Bonds	2.50-3.97%	3,535,000	3,535,000
GENERAL OBLIGATION TAX INCREMENT BONDS			
2009D Tax Increment Bonds	3.50-4.50%	3,900,000	3,520,000
2017B Tax Increment Refunding Bonds	3.00%	1,450,000	1,320,000
2017C Tax Increment Refunding Bonds	3.00-3.25%	3,105,000	3,105,000
Total General Obligation Tax Increment Bonds		<u>8,455,000</u>	<u>7,945,000</u>
Total Bond Indebtedness - Government Activities		25,670,000	17,060,000
SCBA Capital Lease	3.59%	139,971	139,971
Bond Premium		N/A	135,786
Compensated Absences		N/A	260,073
Total Indebtedness - Governmental Activities		<u>\$ 25,809,971</u>	<u>17,595,830</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 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	\$ 70,000
PFA Sewer Bond- Treatment Plant Bond	2.34%	11,500,000	7,080,000
2008A GO Improvement Bonds	2.70-4.25%	90,000	55,000
2009B GO Sewer Rev and Refunding Bonds	2.50-4.00%	1,760,000	1,050,000
2017B GO Refunding Obligation	3.00%	<u>710,000</u>	<u>625,000</u>
Total Bond Indebtedness - Business-Type Activities		14,820,000	8,880,000
Bond Premium		N/A	47,289
Compensated Absences		<u>N/A</u>	<u>81,688</u>
Total City Indebtedness - Business Type Activities		<u>\$ 14,820,000</u>	<u>9,008,977</u>
Total Government-Wide Long-Term Liabilities			<u>\$ 26,604,807</u>

The sale of ESSBY industrial land may obligate the City to make up to a \$30,000 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 \$30,000 per acre of developable land. The bonds maturing on or after April 1, 2027 are subject to extraordinary redemption from the proceeds of the sale of all or a portion of the mortgaged property, in whole or in part, in increments of \$5,000 or any greater amount in the integral multiples thereof, at the option of the issuer at the redemption prices set forth below plus accrued interest to date of redemption.

April 1, 2020 to March 31, 2021	102.00%
April 1, 2021 to March 31, 2022	101.75%
April 1, 2022 to March 31, 2023	101.50%
April 1, 2023 to March 31, 2024	101.00%

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

Long-Term Debt (Continued)

Operating Lease

The City has maintained four active operating leases as of December 31, 2018 for telephone equipment, building space, and network equipment. Lease expenditures for the year ended December 31, 2018, were \$68,779.

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

Year Ending December 31,	Graybar Telephone Lease	Liquor Store Lease	Network Switches Lease
2019	\$ 3,241	\$ 57,510	\$ 9,263
2020	-	62,480	8,491
2021	-	62,480	-
2022	-	65,083	-
2023	-	68,728	-
Thereafter	-	51,546	-
Total	<u>\$ 3,241</u>	<u>\$ 367,827</u>	<u>\$ 17,754</u>

Capital Lease

The City has acquired SCBA equipment under the provisions of a long-term lease agreement classified as a capital lease. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, is being recorded at the present value of its future minimum lease payments as of the inception date. Revenues from the General Fund are used to pay the capital lease obligation.

The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of December 31, 2018, were as follows:

<u>Year Ending December 31:</u>	<u>Governmental Activities</u>
2019	\$ 50,046
2020	50,046
2021	50,047
Total Minimum Lease Payments	150,139
Less: Amount Representing Interest Present Value of Minimum Lease Payments	<u>(10,168)</u>
	<u>\$ 139,971</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

Long-Term Debt (Continued)

A summary of long-term debt transactions for the year ended December 31, 2018, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds	\$ 1,175,000	\$ -	\$ 195,000	\$ 980,000	\$ 205,000
General Obligation Improvement Bonds	5,885,000	-	1,285,000	4,600,000	1,045,000
General Obligation Revenue Bonds	3,535,000	-	-	3,535,000	200,000
General Obligation Tax Increment Bonds	8,165,000	-	220,000	7,945,000	250,000
SCBA Capital Lease	-	139,971	-	139,971	45,021
Equipment Certificates of Indebtedness	14,700	-	14,700	-	-
Plus (Less): Bond Premium (Discount)	151,820	-	16,034	135,786	-
Compensated Absences	226,988	45,422	12,337	260,073	21,087
Governmental Activity Long-Term Liabilities	<u>\$ 19,153,508</u>	<u>\$ 185,393</u>	<u>\$ 1,743,071</u>	<u>\$ 17,595,830</u>	<u>\$ 1,766,108</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds	\$ 9,560,000	\$ -	\$ 680,000	\$ 8,880,000	\$ 715,000
Plus: Bond Premium	54,162	-	6,873	47,289	-
Compensated Absences	63,252	21,936	3,500	81,688	4,974
Business-Type Activity Long-Term Liabilities	<u>\$ 9,677,414</u>	<u>\$ 21,936</u>	<u>\$ 690,373</u>	<u>\$ 9,008,977</u>	<u>\$ 719,974</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 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
2019	\$ 205,000	\$ 33,633	\$ 238,633	2019	\$ 715,000	\$ 244,750	\$ 959,750
2020	160,000	28,045	188,045	2020	665,000	222,964	887,964
2021	160,000	22,698	182,698	2021	685,000	202,693	887,693
2022	175,000	16,878	191,878	2022	690,000	182,032	872,032
2023	35,000	12,940	47,940	2023	665,000	161,680	826,680
2024-2028	200,000	37,095	237,095	2024-2028	2,770,000	555,393	3,325,393
2029-2033	45,000	1,125	46,125	2029-2033	2,690,000	213,129	2,903,129
Total	<u>\$ 980,000</u>	<u>\$ 152,414</u>	<u>\$ 1,132,414</u>	Total	<u>\$ 8,880,000</u>	<u>\$ 1,782,641</u>	<u>\$ 10,662,641</u>

General Obligation Improvement Bonds				Revolving EDA Bonds			
Governmental Activities				Governmental Activities			
	Principal	Interest	Total		Principal	Interest	Total
2019	\$ 1,045,000	\$ 116,635	\$ 1,161,635	2019	\$ 200,000	\$ 116,322	\$ 316,322
2020	1,030,000	158,715	1,188,715	2020	235,000	110,708	345,708
2021	815,000	78,979	893,979	2021	240,000	104,174	344,174
2022	430,000	59,885	489,885	2022	245,000	97,140	342,140
2023	375,000	45,764	420,764	2023	255,000	89,574	344,574
2024-2028	780,000	97,044	877,044	2024-2028	1,400,000	313,686	1,713,686
2029-2033	125,000	2,763	127,763	2029-2033	960,000	57,379	1,017,379
Total	<u>\$ 4,600,000</u>	<u>\$ 559,785</u>	<u>\$ 5,159,785</u>	Total	<u>\$ 3,535,000</u>	<u>\$ 888,983</u>	<u>\$ 4,423,983</u>

Tax Increment Bonds			
Governmental Activities			
	Principal	Interest	Total
2019	\$ 250,000	\$ 282,421	\$ 532,421
2020	275,000	274,008	549,008
2021	290,000	264,821	554,821
2022	300,000	255,055	555,055
2023	300,000	244,927	544,927
2024-2028	2,090,000	1,012,323	3,102,323
2029-2033	2,160,000	650,167	2,810,167
2034-2038	2,280,000	184,143	2,464,143
Total	<u>\$ 7,945,000</u>	<u>\$ 3,167,865</u>	<u>\$ 11,112,865</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 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, 2018 was \$3,342,675.

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, 2018 was \$3,297,914.

C. Fund Balance

The fund balance classifications of the governmental funds as of December 31, 2018 were as follows:

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonspendable					
Prepaid Items	\$ 226,693	\$ -	\$ 1,080	\$ 1,212	\$ 228,985
Land Held for Resale	-	-	1,328,160	-	1,328,160
Restricted					
Tax Increments	-	-	-	90,185	90,185
Debt Payments	-	5,481,541	-	-	5,481,541
Donor Purposes	-	-	-	57,193	57,193
Economic Development	-	-	-	377,590	377,590
Committed					
Economic Development	-	-	-	23,280	23,280
Communications	-	-	-	66,339	66,339
Unassigned	3,299,657	-	(808,419)	-	2,491,238
Total Fund Balances	<u>\$ 3,526,350</u>	<u>\$ 5,481,541</u>	<u>\$ 520,821</u>	<u>\$ 615,799</u>	<u>\$ 10,144,511</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS

A. Public Employees Retirement Association

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 (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security.

2. Public Employees Police and Fire Fund (Police and Fire Plan (accounted for in the Police and Fire Fund))

The Police and Fire Plan, 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 Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. Benefits Provided

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

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employees Plan Benefits (Continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. Police and Fire Plan Benefits

Benefits for the Police and Fire Plan 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 Police and Fire Plan 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 Police and Fire Plan who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0% increase. An annual adjustment will equal 2.5% any time the plan exceeds a 90% funded ratio for two consecutive years. If the adjustment is increased to 2.5% and the funded ratio falls below 80% for one year or 85% for two consecutive years, the post-retirement benefit increase will be lowered to 1%. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

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. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018 and the City was required to contribute 7.50% for Coordinated Plan members. The City contributions to the General Employees Fund for the year ended December 31, 2018, were \$120,726. The City contributions were equal to the required contributions as set by state statute.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary and the City was required to contribute 16.20% of pay for members in fiscal year 2018. The City contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$141,537. The City contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$1,336,969 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$43,872. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was .0241%, which was an increase of .0016% from its proportionate share measured as of June 30, 2017.

City's proportionate share of the net pension liability	\$	1,336,969
State of Minnesota's proportionate share of the net pension liability associated with the City		43,872
Total	\$	1,380,841

For the year ended December 31, 2018, the City recognized pension expense of \$209,267 for its proportionate share of the General Employees Fund's pension expense. In addition, the City recognized an additional \$3,600 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the fund.

The total pension expense for all plans recognized by the City for the year ended December 31, 2018 was \$331,256.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

At December 31, 2018 the City reported its proportionate share of General Employees Fund'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	\$ 35,387	\$ 38,994
Changes in Actuarial Assumptions	127,714	150,223
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	136,617
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	168,303	-
City Contributions Subsequent to the Measurement Date	67,785	-
Total	<u>\$ 399,189</u>	<u>\$ 325,834</u>

\$67,785 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	\$ 127,161
2020	(9,694)
2021	(83,991)
2022	(27,906)

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$883,629 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City proportion was .0829%, which was an increase of .0029% from its proportionate share measured as of June 30, 2018.

For the year ended December 31, 2018, the City recognized pension expense of \$138,397 for its proportionate share of the Police and Fire Fund's pension expense. The City also recognized \$7,461 for the year ended December 31, 2018, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

At December 31, 2018, the City's proportionate share of Police and Fire Fund'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	\$ 35,615	\$ 216,776
Changes in Actuarial Assumptions	1,098,570	1,300,817
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	185,079
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions Agency Contributions Subsequent to the Measurement Date	157,325	5,613
	78,846	-
Total	<u>\$ 1,370,356</u>	<u>\$ 1,708,285</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

\$78,846 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	\$ 17,431
2020	(23,599)
2021	(96,404)
2022	(320,043)
2023	5,840

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Police and Fire Fund

- The mortality projection scale changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stock	36 %	5.10 %
International Stock	17	5.30
Bonds (Fixed Income)	20	0.75
Alternative Assets	25	5.90
Cash	2	0.00
Totals	100 %	

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the 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 6.50%	Current Discount Rate 7.50%	1% Increase in Discount Rate 8.50%
City's Proportionate Share of the General Employees Fund Net Pension Liability	\$ 2,172,746	\$ 1,336,969	\$ 647,059
City Proportionate Share of the Police and Fire Fund Net Pension Liability	\$ 1,894,555	\$ 883,629	\$ 47,634

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.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 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, 2018, membership includes 27 active participants and 9 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 \$3,500 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 five 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 \$2,000 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**NOTE 5 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
=	<u>Total Contribution Required</u>

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$70,555 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2018. 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, 2018 was \$-0-.

D. Pension Costs

At December 31, 2018, the City reported an asset of \$171,931 for the Association's net pension asset. The net pension asset was measured as of December 31, 2017, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**NOTE 5 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 a pension asset of \$171,931 for the year ended December 31, 2018. At December 31, 2018, 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	\$ -	\$ 47,596
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	25,228	-
City Contributions Subsequent to the Measurement Date	-	-
Total	<u>\$ 25,228</u>	<u>\$ 47,596</u>

The City did not make any contributions to the Association subsequent to the measurement date. 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 Ending December 31	Pension Expense Amount
2019	\$ 8,499
2020	6,076
2021	(9,723)
2022	(16,595)
2023	(3,542)
Thereafter	(7,083)

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	12/31/17
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	5.75%
Project Salary Increases	2.50%
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 5.75%. 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**NOTE 5 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 5.75%, 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 (4.75%) or one percentage point higher (6.75%) than the current rate:

	<u>1% Decrease</u>	<u>Selected Discount Rate</u>	<u>1% Increase</u>
Net Pension Liability (Asset)	\$ (149,529)	\$ (171,931)	\$ (193,457)
Discount Rate	4.75%	5.75%	6.75%

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	\$ 38,843
Interest	46,413
Benefit Payments, Including Member Refunds	<u>(30,353)</u>
Net Change in Total Pension Asset	54,903
Total Pension Asset - Beginning of Year	<u>783,510</u>
Total Pension Asset - End of Year (a)	838,413
<u>Plan Fiduciary Net Position</u>	
Municipal Contributions	25,938
State Contributions	68,299
Net Investment Income	115,141
Benefit Payments	(30,353)
Administrative Expenses	<u>(8,004)</u>
Net Change in Fiduciary Net Position	171,021
Fiduciary Net Position - Beginning of Year	839,323
Fiduciary Net Position - End of Year (b)	<u>1,010,344</u>
Association's Net Pension Liability/(Asset) - End of Year (a) - (b)	<u><u>\$ (171,931)</u></u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 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 7 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.

Joint Ventures

The City of North Branch, in conjunction with other governmental entities, has formed the joint ventures listed below:

East Central Cable Commission – In 2018 the City entered into a joint powers agreement with the municipalities of Princeton, Mora, Braham, Pine City, Harris, Pokegama Township, and Pine City Township to form the East Central Cable Commission. The Agreement is authorized by Minn. Stat. §471.59 and §238.08.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 SUMMARY OF OTHER ITEMS (CONTINUED)

Joint Ventures (Continued)

The purpose of the Agreement is to establish an organization to study topics related to cable television; to prepare, adopt, grant and coordinate a single nonexclusive cable communications franchise in member municipalities in the East Central Cable Service Territory to the extent permitted herein; and to study cable system access issues and develop any concepts or organizations necessary to encourage and facilitate access to any system developed pursuant to the Agreement.

During 2018, the City of North Branch collected \$51,690 of franchise fees paid by the cable communications company.

NOTE 8 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 \$3,179,700, 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>954,082</u>
Total Anticipated Payments	3,139,139
Less Principal Payments Made	<u>(1,328,160)</u>
Total Remaining Payments	<u><u>\$ 1,810,979</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, 2018 is 3%.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Due to the uncertainty of future land sales, the City expects to levy property taxes payable in years 2019-2026 totaling \$1,650,979 as well as provide an additional \$160,000 of funds from internal transfers to fund its obligation to the County HRA/EDA. Future anticipated payments are as follows:

Year Ending December 31,	Payment
2019	\$ 220,000
2020	240,000
2021	210,000
2022	275,000
2023	275,000
2024-2026	590,979
Total	\$ 1,810,979

NOTE 9 TAX ABATEMENTS

Pay-As-You-Go TIF

The City has 2 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:

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. For the year ended December 31, 2018, the City paid excess tax increment in the amount of \$59,401.

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. For the year ended December 31, 2018, the City paid excess tax increment in the amount of \$-0-.

Tax Abatement

The City entered into a property tax abatement agreement with a local business to promote business growth. The agreement is under Minnesota Statutes, Sections 469.1812 through 469.1815. The City entered into the agreement during 2004 and it is a 15-year agreement that abates \$5,400 in property taxes per year for a total of \$81,000 in abated taxes. The requirement for the abated property taxes is that the business shall expand its existing facility by constructing a 13,000 square foot addition. For the year ended December 31, 2018, the City abated taxes totaling \$5,399. No other commitments were made by the City as part of this agreement.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018.

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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

North Branch Municipal Water and Light Commission (Continued)

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 2018 and 2017 of \$12,143 and \$21,882, 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.

Encumbrances

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

Interfund Receivables and Payables

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

Prepaid Items

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

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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018 are determined on the basis of current salary rates and include salary related payments.

Long-term Obligations

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

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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

North Branch Municipal Water and Light Commission (Continued)

Charges for Services

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

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 “net investment in capital assets”

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 \$5,562,640 and the bank balance was \$5,582,181. Of the bank balance, \$750,000 was covered by federal depository insurance. Of the remaining balance, \$4,832,181 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 maintains no investment accounts.

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

Statement of Net Position	
Cash and Cash Investments	\$ 2,377,476
Restricted Assets	3,185,314
Total Cash	<u>\$ 5,562,790</u>
Deposits	\$ 5,562,640
Cash on Hand	150
Total Cash and Investments	<u>\$ 5,562,790</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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018:

	Restricted Assets	Liabilities Payable from Restricted Assets	Net Restricted Assets
Bond Redemption Account	\$ 2,160,485	\$ 96,564	\$ 2,063,921
Bond Reserve Account	639,085	-	639,085
Water Hookup Charge Account	385,744	-	385,744
Total Restricted Assets	<u>\$ 3,185,314</u>	<u>\$ 96,564</u>	<u>\$ 3,088,750</u>

Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
WATER AND LIGHT COMMISSION				
Capital Assets, Not Being Depreciated				
Land	\$ 98,930	\$ -	\$ -	\$ 98,930
Capital Assets, Being Depreciated				
Building and Structures	2,183,516	-	-	2,183,516
Equipment and Vehicles	6,664,157	39,996	-	6,704,153
Distribution System	26,743,169	26,086	-	26,769,255
Total Capital Assets, Being Depreciated	35,590,842	66,082	-	35,656,924
Less Accumulated Depreciation	13,669,169	1,094,850	-	14,764,019
Total Capital Assets, Depreciated, Net	21,921,673	(1,028,768)	-	20,892,905
Business-Type Activities Capital Assets, Net	<u>\$ 22,020,603</u>	<u>\$ (1,028,768)</u>	<u>\$ -</u>	<u>\$ 20,991,835</u>

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

Business-type Activities:

Electric Utility	\$ 509,272
Water Utility	585,578
Total Depreciation Expense - Business-type Activities	<u>\$ 1,094,850</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018:

COMPONENT UNIT	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
WATER AND LIGHT COMMISSION					
General Obligation Bonds	\$ 13,107,000	\$ -	\$ 1,118,000	\$ 11,989,000	\$ 1,065,000
Bond Discount	(940)	-	(940)	-	-
Compensated Absences	72,226	87,487	72,226	87,487	-
Component Unit Activity Long-Term					
Liabilities	<u>\$ 13,178,286</u>	<u>\$ 87,487</u>	<u>\$ 1,189,286</u>	<u>\$ 12,076,487</u>	<u>\$ 1,065,000</u>

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

	Water and Light Commission		
	Long-Term Debt		
	Principal	Interest	Total
2019	\$ 1,065,000	\$ 449,068	\$ 1,514,068
2020	1,093,000	419,377	1,512,377
2021	1,144,000	282,385	1,426,385
2022	1,173,000	250,652	1,423,652
2023	1,082,000	218,096	1,300,096
2024-2028	4,284,000	691,954	4,975,954
2029-2033	1,731,000	231,421	1,962,421
2034-2038	417,000	20,757	437,757
Total	<u>\$ 11,989,000</u>	<u>\$ 2,563,710</u>	<u>\$ 14,552,710</u>

Bond Covenants

As of December 31, 2018, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plan

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 (General Employees Fund)

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

B. Benefits Provided

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

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

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plan (Continued)

B. Benefits Provided (Continued)

General Employee Fund Benefits

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increases. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 months as of June 30, will receive a pro rata increase.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50%, of their annual covered salary in 2018. The North Branch Municipal Water and Light Commission, Minnesota was required to contribute 7.50% for Coordinated Plan members in calendar year 2018. The North Branch Municipal Water and Light Commission, Minnesota contributions to the General Employees Fund for the year ended December 31, 2018, were \$55,081. 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plan (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2018, the North Branch Municipal Water and Light Commission, Minnesota reported a liability of \$593,592 for its proportionate share of the General Employees Fund's net pension liability. The North Branch Municipal Water and Light Commission, Minnesota's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the North Branch Municipal Water and Light Commission, Minnesota totaled \$19,381. The net pension liability was measured as of June 30, 2018 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the North Branch Municipal Water and Light Commission, Minnesota proportionate share was 0.0107% which was an increase of 0.0003% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the North Branch Municipal Water and Light Commission, Minnesota recognized pension expense of \$39,213 for its proportionate share of the General Employees Plan's pension expense. In addition, the North Branch Municipal Water and Light Commission, Minnesota recognized an additional \$4,520 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the North Branch Municipal Water and Light Commission, Minnesota reported its proportionate share of the General Employees Fund'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	\$ 15,290	\$ 16,341
Changes in Actuarial Assumptions	53,524	65,417
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	72,000	134,104
Changes in Proportion and Differences Between Agency Contributions and Proportionate Share of Contributions	26,543	3,887
Contributions Subsequent to the Measurement Date	27,586	-
Total	<u>\$ 194,943</u>	<u>\$ 219,749</u>

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plan (Continued)

D. Pension Costs (Continued)

\$27,586 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	\$ 24,248
2020	(21,805)
2021	(42,620)
2022	(12,215)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5% thereafter for both plans.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for the Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plan (Continued)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2018 for the General Employees Fund:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2044 and 2.5% thereafter to 1.25% per year.

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	36 %	5.10
International Equity	17	5.30
Bonds	20	0.75
Alternative Assets	25	5.90
Cash	2	0.00
Totals	100 %	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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 FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

North Branch Municipal Water and Light Commission (Continued)

Defined Benefit Pension Plan (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 one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease in Discount Rate 6.50%	Current Discount Rate 7.50%	1% Increase in Discount Rate 8.50%
North Branch Municipal Water and Light Commission Proportionate Share of the General Employees Fund Net Pension Liability	\$ 964,663	\$ 593,592	\$ 287,284

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.

Risk Management

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

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

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

North Branch Municipal Water and Light Commission (Continued)

Risk Management (Continued)

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

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.

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.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 12 SUBSEQUENT EVENTS

Subsequent to December 31, 2018 the City received prepaid sewer access fees, water access fees, and trunk fees totaling \$1,860,000 to fund a utility extension to a new large development.

On May 20, 2019, the City entered into a financing arrangement to acquire a fire pumper truck. The obligation totals \$506,000 and requires an annual payment of \$65,500 over a 10 year term. The proceeds have been placed in an escrow account until the funds are needed for the equipment purchase.

**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 MEASUREMENT PERIODS**

General Employees Fund

	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
City's Proportion of the Net Pension Liability	0.0241%	0.0225%	0.0198%	0.0183%
City's Proportionate Share of the Net Pension Liability	\$ 1,336,969	\$ 1,436,385	\$ 1,607,662	\$ 948,401
State's Proportionate Share of the Net Pension Liability Associated with the City	\$ 43,872	\$ 18,083	\$ 20,997	\$ -
Total Proportionate Share of the Net Pension Liability Associated with the City	\$ 1,380,841	\$ 1,454,468	\$ 1,628,659	\$ 948,401
City's Covered Payroll	\$ 1,610,165	\$ 1,477,706	\$ 1,203,346	\$ 1,077,025
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	85.76%	98.43%	135.34%	88.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.90%	78.20%

Police and Fire Fund

City's Proportion of the Net Pension Liability	0.0829%	0.0800%	0.0710%	0.0720%
City's Proportionate Share of the Net Pension Liability	\$ 883,629	\$ 1,080,095	\$ 2,849,354	\$ 818,088
City's Covered Payroll	\$ 873,684	\$ 826,665	\$ 684,753	\$ 655,606
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	101.14%	130.66%	416.11%	124.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.80%	85.43%	63.90%	86.60%

NOTE: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

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

	2018	2017	2016	2015	2014
General Employees Fund					
Statutorily Required Contribution	\$ 120,726	\$ 110,423	\$ 98,867	\$ 85,884	\$ 77,821
Contributions in Relation to the Statutorily Required Contribution	(120,726)	(110,423)	(98,867)	(85,884)	(77,821)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 1,609,680	\$ 1,472,307	\$ 1,318,227	\$ 1,145,115	\$ 1,065,945
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.30%
Police and Fire Fund					
Statutorily Required Contribution	\$ 141,537	\$ 134,617	\$ 122,718	\$ 113,738	\$ 94,728
Contributions in Relation to the Statutorily Required Contribution	(141,537)	(134,617)	(122,718)	(113,738)	(94,728)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 873,685	\$ 830,969	\$ 757,518	\$ 702,086	\$ 619,137
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%	16.20%	15.30%
FIRE RELIEF ASSOCIATION PLAN					
Statutorily Required Contribution	\$ -	\$ -	\$ 25,938	\$ 36,524	\$ 61,125
Contributions in Relation to the Statutorily Required Contribution	-	-	(25,938)	(36,524)	(61,125)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A

NOTE: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

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

	Measurement Date December 31, 2017	Measurement Date December 31, 2016	Measurement Date December 31, 2015	Measurement Date December 31, 2014
Total Pension Asset				
Service Cost	\$ 38,843	\$ 33,447	\$ 34,915	\$ 34,064
Interest	46,413	49,669	42,682	42,383
Differences Between Expected and Actual Experience	-	(61,194)	-	-
Changes in Assumptions	-	29,317	-	-
Changes in Benefit Terms	-	56,154	-	-
Benefit Payments, Including Member Refunds	(30,353)	-	(22,443)	(121,923)
Net Change in Total Pension Asset	<u>54,903</u>	<u>107,393</u>	<u>55,154</u>	<u>(45,476)</u>
Total Pension Asset - Beginning of Year	<u>783,510</u>	<u>676,117</u>	<u>620,963</u>	<u>666,439</u>
Total Pension Asset - End of Year (a)	838,413	783,510	676,117	620,963
Plan Fiduciary Net Position				
Municipal Contributions	25,938	26,985	36,524	61,125
State Contributions	68,299	69,347	70,145	60,989
Net Investment Income	115,141	19,860	50,516	33,721
Benefit Payments	(30,353)	-	(22,443)	(121,923)
Administrative Expenses	(8,004)	(7,056)	(10,229)	(6,500)
Other Changes	-	-	(78,983)	(1,473)
Net Change in Fiduciary Net Position	<u>171,021</u>	<u>109,136</u>	<u>45,530</u>	<u>25,939</u>
Fiduciary Net Position - Beginning of Year	<u>839,323</u>	<u>730,187</u>	<u>684,657</u>	<u>658,718</u>
Fiduciary Net Position - End of Year (b)	<u>1,010,344</u>	<u>839,323</u>	<u>730,187</u>	<u>684,657</u>
Association's Net Pension Liability/(Asset) - End of Year (a) - (b)	<u>\$ (171,931)</u>	<u>\$ (55,813)</u>	<u>\$ (54,070)</u>	<u>\$ (63,694)</u>
Fiduciary Net Position as a Percentage of the Total Pension Liability	120.51%	107.12%	108.00%	110.26%
Covered Payroll	N/A	N/A	N/A	N/A

NOTE: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

**CITY OF NORTH BRANCH, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
REVENUES				
Taxes	\$ 3,027,730	\$ 3,037,730	\$ 3,044,033	\$ 6,303
Tax Increments	22,350	22,350	38,443	16,093
Licenses and Permits	229,550	372,550	394,341	21,791
Special Assessments	2,225	2,225	4,873	2,648
Intergovernmental	1,065,525	1,083,525	1,122,537	39,012
Charges for Services	92,070	92,070	108,767	16,697
Fines and Forfeits	20,000	20,000	25,383	5,383
Interest Earnings	17,425	28,515	46,609	18,094
Contributions and Donations	-	-	48,698	48,698
Refunds and Reimbursements	44,700	44,700	39,222	(5,478)
Miscellaneous	1,100	1,100	21,455	20,355
Total Revenues	<u>4,522,675</u>	<u>4,704,765</u>	<u>4,894,361</u>	<u>189,596</u>
EXPENDITURES				
Current				
General Government				
Mayor and Council	23,982	22,482	19,134	(3,348)
Administration	137,123	137,923	130,488	(7,435)
Clerks	131,577	125,127	120,602	(4,525)
Elections	9,370	9,770	10,166	396
Financial Administration	279,184	286,734	293,193	6,459
City Attorney	45,000	29,300	41,040	11,740
City Engineer	36,000	21,500	19,723	(1,777)
Planning and Zoning	178,688	178,688	180,309	1,621
Governmental Buildings	229,863	241,463	245,796	4,333
Miscellaneous	25,160	25,160	51,614	26,454
Total General Government	<u>1,095,947</u>	<u>1,078,147</u>	<u>1,112,065</u>	<u>33,918</u>
Public Safety				
Police Protection	1,673,219	1,710,219	1,686,907	(23,312)
Fire Protection	392,323	336,723	286,514	(50,209)
Building Inspection	166,298	198,738	184,012	(14,726)
Other Protection	68,875	65,575	56,400	(9,175)
Total Public Safety	<u>2,300,715</u>	<u>2,311,255</u>	<u>2,213,833</u>	<u>(97,422)</u>
Highways and Streets				
Street Maintenance	1,047,693	1,175,593	988,418	(187,175)
Culture and Recreation				
Parks	258,320	258,213	237,784	(20,429)
Total Culture and Recreation	<u>258,320</u>	<u>258,213</u>	<u>237,784</u>	<u>(20,429)</u>
Capital Outlay				
Capital Equipment	-	-	139,971	139,971
Total Expenditures	<u>4,702,675</u>	<u>4,823,208</u>	<u>4,692,071</u>	<u>(131,137)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(180,000)	(118,443)	202,290	320,733
OTHER FINANCING SOURCES (USES)				
Transfers In	180,000	80,000	80,000	-
Capital Lease Proceeds	-	-	139,971	139,971
Total Other Financing Sources (Uses)	<u>180,000</u>	<u>80,000</u>	<u>219,971</u>	<u>139,971</u>
NET CHANGE IN FUND BALANCE	\$ -	\$ (38,443)	422,261	\$ 460,704
Fund Balance - Beginning of Year			<u>3,104,089</u>	
FUND BALANCE - END OF YEAR			<u>\$ 3,526,350</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

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.

NOTE 2 DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2018:

General Employees Fund

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

2017

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

2016

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

**CITY OF NORTH BRANCH, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

NOTE 2 DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

Police and Fire Fund

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.

2017

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and nonvested deferred members. The CSA has been changed to 33% for vested members and 2% for nonvested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.
- The single discount rate was changed from 5.6% per annum to 7.5% per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS**

**CITY OF NORTH BRANCH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR FUNDS
DECEMBER 31, 2018**

	SPECIAL REVENUE FUNDS			
	201 EDA FUND	208 DEPARTMENT EQUIPMENT DONATION	260 TAX ABATEMENT	270 REVOLVING LOAN
ASSETS				
Cash and Investments	\$ 28,561	\$ 57,760	\$ 17,612	\$ 306,335
Receivables				
Taxes	3,331	-	293	-
Due From Other Governments	-	-	-	-
Prepaid Items	1,212	-	-	-
Total Assets	<u>\$ 33,104</u>	<u>\$ 57,760</u>	<u>\$ 17,905</u>	<u>\$ 306,335</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 4,675	\$ 567	\$ -	\$ -
Accrued Liabilities	1,562	-	-	-
Total Liabilities	6,237	567	-	-
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	2,375	-	273	-
Fund Balances (Deficits)				
Nonspendable	1,212	-	-	-
Restricted	-	57,193	17,632	306,335
Committed	23,280	-	-	-
Total Fund Balances (Deficit)	<u>24,492</u>	<u>57,193</u>	<u>17,632</u>	<u>306,335</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 33,104</u>	<u>\$ 57,760</u>	<u>\$ 17,905</u>	<u>\$ 306,335</u>

SPECIAL REVENUE FUNDS				
276	279	281	290	TOTAL
CABLE FRANCHISE	KELLY HOUSING TIF	ECUMEN TIF DISTRICT	HOUSING SUPPORT	NONMAJOR GOVERNMENTAL FUNDS
\$ 53,109	\$ 23,909	\$ 66,276	\$ 53,623	\$ 607,185
-	-	-	-	3,624
13,230	-	-	-	13,230
-	-	-	-	1,212
<u>\$ 66,339</u>	<u>\$ 23,909</u>	<u>\$ 66,276</u>	<u>\$ 53,623</u>	<u>\$ 625,251</u>
\$ -	\$ -	\$ -	\$ -	\$ 5,242
-	-	-	-	1,562
-	-	-	-	6,804
-	-	-	-	2,648
-	-	-	-	1,212
-	23,909	66,276	53,623	524,968
66,339	-	-	-	89,619
<u>66,339</u>	<u>23,909</u>	<u>66,276</u>	<u>53,623</u>	<u>615,799</u>
<u>\$ 66,339</u>	<u>\$ 23,909</u>	<u>\$ 66,276</u>	<u>\$ 53,623</u>	<u>\$ 625,251</u>

**CITY OF NORTH BRANCH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR FUNDS
YEAR ENDED DECEMBER 31, 2018**

	SPECIAL REVENUE FUNDS		
	201	208	260
	EDA FUND	FIRE DEPARTMENT EQUIPMENT DONATION	TAX ABATEMENT
REVENUES			
Taxes	\$ 149,061	\$ -	\$ -
Tax Increments	-	-	-
Tax Abatement	-	-	6,384
Intergovernmental	670	-	19
Interest	302	605	185
Contributions and Donations	-	30,000	-
Miscellaneous	3,500	-	-
Total Revenues	<u>153,533</u>	<u>30,605</u>	<u>6,588</u>
EXPENDITURES			
Current			
General Government	137,524	-	-
Public Safety	-	44,461	-
TIF and Tax Abatement Payments	-	-	5,399
Total Expenditures	<u>137,524</u>	<u>44,461</u>	<u>5,399</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	16,009	(13,856)	1,189
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	-	-
NET CHANGE IN FUND BALANCES	16,009	(13,856)	1,189
Fund Balances (Deficit) - Beginning of Year	<u>8,483</u>	<u>71,049</u>	<u>16,443</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 24,492</u>	<u>\$ 57,193</u>	<u>\$ 17,632</u>

SPECIAL REVENUE FUNDS

270	276	279	281	290	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVOLVING LOAN	CABLE FRANCHISE	KELLY HOUSING TIF	ECUMEN TIF DISTRICT	HOUSING SUPPORT	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 149,061
-	-	66,001	124,106	-	190,107
-	-	-	-	-	6,384
-	-	-	-	-	689
3,211	417	251	696	562	6,229
-	-	-	-	-	30,000
-	51,690	-	-	-	55,190
<u>3,211</u>	<u>52,107</u>	<u>66,252</u>	<u>124,802</u>	<u>562</u>	<u>437,660</u>
-	-	14	14	-	137,552
-	-	-	-	-	44,461
-	-	59,401	-	-	64,800
<u>-</u>	<u>-</u>	<u>59,415</u>	<u>14</u>	<u>-</u>	<u>246,813</u>
3,211	52,107	6,837	124,788	562	190,847
<u>-</u>	<u>(40,000)</u>	<u>-</u>	<u>(220,000)</u>	<u>-</u>	<u>(260,000)</u>
3,211	12,107	6,837	(95,212)	562	(69,153)
<u>303,124</u>	<u>54,232</u>	<u>17,072</u>	<u>161,488</u>	<u>53,061</u>	<u>684,952</u>
<u>\$ 306,335</u>	<u>\$ 66,339</u>	<u>\$ 23,909</u>	<u>\$ 66,276</u>	<u>\$ 53,623</u>	<u>\$ 615,799</u>

**CITY OF NORTH BRANCH, MINNESOTA
BALANCE SHEET
DEBT SERVICE FUND BY BOND ISSUE
DECEMBER 31, 2018**

	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	316 G.O. REFUNDING BONDS OF 2013
ASSETS				
Cash and Investments	\$ -	\$ -	\$ 158,072	\$ 895,737
Cash Held in Escrow	-	-	-	-
Receivables				
Accounts	-	-	-	-
Taxes	-	-	-	-
Special Assessments	36,979	-	-	1,346,032
Total Assets	<u>\$ 36,979</u>	<u>\$ -</u>	<u>\$ 158,072</u>	<u>\$ 2,241,769</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ 500	\$ -
Due to Other Funds	-	85	-	-
Total Liabilities	-	85	500	-
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	-	-	-	-
Unavailable Revenue - Special Assessments	36,979	-	-	1,308,420
Total Deferred Inflows of Resources	36,979	-	-	1,308,420
Fund Balances				
Restricted	-	(85)	157,572	933,349
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 36,979</u>	<u>\$ -</u>	<u>\$ 158,072</u>	<u>\$ 2,241,769</u>

DEBT SERVICE FUNDS

317	322	323	387	393	394
EQUIPMENT CERTIFICATE	STREET RECONSTRUCTION BONDS OF 2009A	G.O. TIF BONDS OF 2009D	EDA LEASE REVENUE BONDS OF 2009	2006B TAX INCREMENT REFUNDING BONDS	G.O. BONDS OF 2006C
\$ -	\$ 26,655	\$ 230,545	\$ 385,461	\$ 334,601	\$ 14,403
-	-	3,000,843	-	-	-
-	-	-	1,844	-	-
-	-	-	6,975	21,673	-
-	-	-	-	26,095	50,638
<u>\$ -</u>	<u>\$ 26,655</u>	<u>\$ 3,231,388</u>	<u>\$ 394,280</u>	<u>\$ 382,369</u>	<u>\$ 65,041</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	6,975	-	-
-	-	-	-	25,775	50,283
-	-	-	6,975	25,775	50,283
-	26,655	3,231,388	387,305	356,594	14,758
<u>\$ -</u>	<u>\$ 26,655</u>	<u>\$ 3,231,388</u>	<u>\$ 394,280</u>	<u>\$ 382,369</u>	<u>\$ 65,041</u>

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**CITY OF NORTH BRANCH, MINNESOTA
BALANCE SHEET
DEBT SERVICE FUND BY BOND ISSUE (CONTINUED)
DECEMBER 31, 2018**

	DEBT SERVICE FUNDS		TOTAL DEBT SERVICE FUND
	397	398	
	G.O. BONDS OF 2007A	G.O. BONDS OF 2008A	
ASSETS			
Cash and Investments	\$ 158,440	\$ 192,503	\$ 2,396,417
Cash Held in Escrow	-	-	3,000,843
Receivables			
Accounts	-	-	1,844
Taxes	-	-	28,648
Special Assessments	446,749	1,218,897	3,125,390
Total Assets	<u>\$ 605,189</u>	<u>\$ 1,411,400</u>	<u>\$ 8,553,142</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ -	\$ -	\$ 500
Due to Other Funds	-	-	85
Total Liabilities	-	-	585
Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	-	-	6,975
Unavailable Revenue - Special Assessments	432,040	1,210,544	3,064,041
Total Deferred Inflows of Resources	432,040	1,210,544	3,071,016
Fund Balances			
Restricted	173,149	200,856	5,481,541
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 605,189</u>	<u>\$ 1,411,400</u>	<u>\$ 8,553,142</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, 2018**

	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	316 G.O. REFUNDING BONDS OF 2013
REVENUES				
Taxes	\$ -	\$ -	\$ 168,895	\$ -
Tax Increments	-	-	-	-
Intergovernmental	-	-	-	76,756
Special Assessments	-	-	-	519,754
Interest Earnings	-	-	1,657	8,268
Total Revenues	<u>-</u>	<u>-</u>	<u>170,552</u>	<u>604,778</u>
EXPENDITURES				
Debt Service				
Principal	-	250,000	170,000	820,000
Fiscal Agent Fees	-	830	1,279	3,855
Interest	-	4,800	19,423	38,850
Total Expenditures	<u>-</u>	<u>255,630</u>	<u>190,702</u>	<u>862,705</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(255,630)	(20,150)	(257,927)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	133,202	-	193,076
Total Other Financing Sources (Uses)	<u>-</u>	<u>133,202</u>	<u>-</u>	<u>193,076</u>
NET CHANGE IN FUND BALANCES	-	(122,428)	(20,150)	(64,851)
Fund Balances - Beginning of Year	<u>-</u>	<u>122,343</u>	<u>177,722</u>	<u>998,200</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ (85)</u>	<u>\$ 157,572</u>	<u>\$ 933,349</u>

DEBT SERVICE FUNDS

317	322 STREET RECONSTRUCTION BONDS OF 2009A	323 G.O. TIF BONDS OF 2009D	387 EDA LEASE REVENUE BONDS OF 2009	393 2006B TAX INCREMENT REFUNDING BONDS	394 G.O. BONDS OF 2006C
\$ 11,434	\$ 43,993	\$ 19,786	\$ 449,713	\$ -	\$ -
-	-	2,301	-	242,446	-
-	-	-	-	-	-
-	-	-	-	9,758	12,932
-	279	55,684	7,295	3,508	151
<u>11,434</u>	<u>44,272</u>	<u>77,771</u>	<u>457,008</u>	<u>255,712</u>	<u>13,083</u>
14,700	25,000	90,000	-	130,000	10,000
-	829	1,255	627	4,178	10
294	19,755	258,709	90,106	46,263	1,679
<u>14,994</u>	<u>45,584</u>	<u>349,964</u>	<u>90,733</u>	<u>180,441</u>	<u>11,689</u>
(3,560)	(1,312)	(272,193)	366,275	75,271	1,394
-	-	220,000	-	-	-
-	-	220,000	-	-	-
(3,560)	(1,312)	(52,193)	366,275	75,271	1,394
3,560	27,967	3,283,581	21,030	281,323	13,364
<u>\$ -</u>	<u>\$ 26,655</u>	<u>\$ 3,231,388</u>	<u>\$ 387,305</u>	<u>\$ 356,594</u>	<u>\$ 14,758</u>

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**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, 2018**

	DEBT SERVICE FUNDS		TOTAL DEBT SERVICE FUND
	397	398	
	G.O. BONDS OF 2007A	G.O. BONDS OF 2008A	
REVENUES			
Taxes	\$ 3,462	\$ -	\$ 697,283
Tax Increments	-	-	244,747
Intergovernmental	-	-	76,756
Special Assessments	123,742	122,476	788,662
Interest Earnings	1,537	2,018	80,397
Total Revenues	<u>128,741</u>	<u>124,494</u>	<u>1,887,845</u>
EXPENDITURES			
Debt Service			
Principal	125,000	80,000	1,714,700
Fiscal Agent Fees	3,880	3,858	20,601
Interest	35,888	47,186	562,953
Total Expenditures	<u>164,768</u>	<u>131,044</u>	<u>2,298,254</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(36,027)	(6,550)	(410,409)
OTHER FINANCING SOURCES (USES)			
Transfers In	11,785	6,670	564,733
Total Other Financing Sources (Uses)	<u>11,785</u>	<u>6,670</u>	<u>564,733</u>
NET CHANGE IN FUND BALANCES	(24,242)	120	154,324
Fund Balances - Beginning of Year	<u>197,391</u>	<u>200,736</u>	<u>5,327,217</u>
FUND BALANCES - END OF YEAR	<u>\$ 173,149</u>	<u>\$ 200,856</u>	<u>\$ 5,481,541</u>

**CITY OF NORTH BRANCH, MINNESOTA
BALANCE SHEET
CAPITAL PROJECTS FUND BY CAPITAL PROJECT
DECEMBER 31, 2018**

	CAPITAL PROJECTS			
	401	403	432	455
	REVOLVING CAPITAL	PARK IMPROVEMENTS	EQUIPMENT REVOLVING FUND	ROAD IMPROVEMENTS
ASSETS				
Cash and Investments	\$ -	\$ 88,693	\$ 2,033	\$ 139,216
Receivables				
Accounts	-	-	-	-
Taxes	-	-	-	-
Special Assessments	891	-	-	87,679
Due From Other Governments	1,715,695	-	-	-
Prepaid Items	-	-	-	-
Land Held for Resale	-	-	-	-
Total Assets	<u>\$ 1,716,586</u>	<u>\$ 88,693</u>	<u>\$ 2,033</u>	<u>\$ 226,895</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 39,938	\$ 8,160	\$ -	\$ -
Due to Other Funds	160,499	-	-	-
Due to Component Units	-	-	-	-
Total Liabilities	<u>200,437</u>	<u>8,160</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	-	-	-	-
Unavailable Revenue - Special Assessments	891	-	-	87,643
Unavailable Revenue - State Aid	1,715,695	-	-	-
Total Deferred Inflows of Resources	<u>1,716,586</u>	<u>-</u>	<u>-</u>	<u>87,643</u>
Fund Balances (Deficits)				
Nonspendable	-	-	-	-
Unassigned	<u>(200,437)</u>	<u>80,533</u>	<u>2,033</u>	<u>139,252</u>
Total Fund Balances (Deficit)	<u>(200,437)</u>	<u>80,533</u>	<u>2,033</u>	<u>139,252</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	<u>\$ 1,716,586</u>	<u>\$ 88,693</u>	<u>\$ 2,033</u>	<u>\$ 226,895</u>

CAPITAL PROJECTS

458 ROAD MAINTENANCE - FRAN FEE	475 LIBRARY/ COMMUNITY CENTER	476 INDUSTRIAL PARK IV	478 PALLETMAN	486 RECREATION CENTER
\$ 56,510	\$ 162,684	\$ -	\$ -	\$ 64,464
61,638	-	-	-	-
-	-	28,057	62	-
-	-	-	-	-
-	-	1,080	-	-
-	-	1,328,160	-	-
<u>\$ 118,148</u>	<u>\$ 162,684</u>	<u>\$ 1,357,297</u>	<u>\$ 62</u>	<u>\$ 64,464</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	1,163,787	27,542	-
-	-	15,469	-	-
-	-	1,179,256	27,542	-
-	-	21,906	-	-
-	-	-	-	-
-	-	-	-	-
-	-	21,906	-	-
-	-	1,329,240	-	-
118,148	162,684	(1,173,105)	(27,480)	64,464
<u>118,148</u>	<u>162,684</u>	<u>156,135</u>	<u>(27,480)</u>	<u>64,464</u>
<u>\$ 118,148</u>	<u>\$ 162,684</u>	<u>\$ 1,357,297</u>	<u>\$ 62</u>	<u>\$ 64,464</u>

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**CITY OF NORTH BRANCH, MINNESOTA
BALANCE SHEET
CAPITAL PROJECTS FUND BY CAPITAL PROJECT (CONTINUED)
DECEMBER 31, 2018**

	CAPITAL PROJECTS	
	492 HOUSING PROJECT	TOTAL CAPITAL PROJECTS FUND
ASSETS		
Cash and Investments	\$ 24,971	\$ 538,571
Receivables		
Accounts	-	61,638
Taxes	2,286	30,405
Special Assessments	-	88,570
Due From Other Governments	-	1,715,695
Prepaid Items	-	1,080
Land Held for Resale	-	1,328,160
Total Assets	<u>\$ 27,257</u>	<u>\$ 3,764,119</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities		
Accounts Payable	\$ -	\$ 48,098
Due to Other Funds	-	1,351,828
Due to Component Units	-	15,469
Total Liabilities	-	1,415,395
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes	1,768	23,674
Unavailable Revenue - Special Assessments	-	88,534
Unavailable Revenue - State Aid	-	1,715,695
Total Deferred Inflows of Resources	1,768	1,827,903
Fund Balances (Deficits)		
Nonspendable	-	1,329,240
Unassigned	25,489	(808,419)
Total Fund Balances (Deficit)	<u>25,489</u>	<u>520,821</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	<u>\$ 27,257</u>	<u>\$ 3,764,119</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, 2018**

	CAPITAL PROJECTS			
	401	403	432	455
	REVOLVING CAPITAL	PARK IMPROVEMENTS	EQUIPMENT REVOLVING FUND	ROAD IMPROVEMENTS
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Tax Abatement	-	-	-	-
Intergovernmental	691,217	30,368	-	-
Fines and Forfeits	-	-	-	-
Special Assessments	-	-	-	14,933
Interest Earnings	1,103	1,103	21	1,459
Refunds and Reimbursements	-	6,522	-	-
Miscellaneous	-	-	-	-
Total Revenues	<u>692,320</u>	<u>37,993</u>	<u>21</u>	<u>16,392</u>
EXPENDITURES				
Current				
General Government	-	-	-	-
Highways and Streets	621,754	-	-	-
Capital Outlay	225,276	25,617	-	-
Debt Service				
Interest and Fiscal Agent Fees	-	-	-	-
Total Expenditures	<u>847,030</u>	<u>25,617</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(154,710)	12,376	21	16,392
Fund Balances (Deficit) - Beginning of Year	<u>(45,727)</u>	<u>68,157</u>	<u>2,012</u>	<u>122,860</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (200,437)</u>	<u>\$ 80,533</u>	<u>\$ 2,033</u>	<u>\$ 139,252</u>

CAPITAL PROJECTS

458	475	476	478	486
ROAD MAINTENANCE - FRAN FEE	LIBRARY/ COMMUNITY CENTER	INDUSTRIAL PARK IV	PALLETMAN	RECREATION CENTER
\$ -	\$ -	\$ 958,272	\$ -	\$ -
-	-	-	6,243	-
-	-	-	19	-
-	-	-	-	44,550
-	-	2,292	-	-
593	1,705	-	-	676
-	-	14,201	-	4
117,555	-	35,406	-	-
<u>118,148</u>	<u>1,705</u>	<u>1,010,171</u>	<u>6,262</u>	<u>45,230</u>
-	-	475,470	136	-
-	-	-	-	-
-	-	-	-	-
-	-	21,135	-	-
-	-	<u>496,605</u>	<u>136</u>	<u>-</u>
118,148	1,705	513,566	6,126	45,230
-	160,979	(357,431)	(33,606)	19,234
<u>\$ 118,148</u>	<u>\$ 162,684</u>	<u>\$ 156,135</u>	<u>\$ (27,480)</u>	<u>\$ 64,464</u>

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**CITY OF NORTH BRANCH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUND BY CAPITAL PROJECT (CONTINUED)
DECEMBER 31, 2018**

	CAPITAL PROJECTS	
	492 HOUSING PROJECT	TOTAL CAPITAL PROJECTS FUND
REVENUES		
Taxes	\$ 80,256	\$ 1,038,528
Tax Abatement	-	6,243
Intergovernmental	-	721,604
Fines and Forfeits	-	44,550
Special Assessments	-	17,225
Interest Earnings	262	6,922
Refunds and Reimbursements	-	20,727
Miscellaneous	-	152,961
Total Revenues	80,518	2,008,760
EXPENDITURES		
Current		
General Government	90,862	566,468
Highways and Streets	-	621,754
Capital Outlay	-	250,893
Debt Service		
Interest and Fiscal Agent Fees	-	21,135
Total Expenditures	90,862	1,460,250
NET CHANGE IN FUND BALANCES	(10,344)	548,510
Fund Balances (Deficit) - Beginning of Year	35,833	(27,689)
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 25,489	\$ 520,821

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OTHER REPORTS SECTION



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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 13, 2019. 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 described in the accompanying schedule of findings and recommendations as items 2018-001 and 2018-002 to be material weaknesses.

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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and recommendations as item 2018-003 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

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
June 13, 2019

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**CITY OF NORTH BRANCH, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2018**

MATERIAL WEAKNESSES

2018-001

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, a material adjustment was proposed for the reporting of capital assets and contributed capital in the Sewer and Storm Sewer funds.

Cause: Turnover in the finance department.

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, 2018**

MATERIAL WEAKNESSES (CONTINUED)

2018-002

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.*

**CITY OF NORTH BRANCH, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

SIGNIFICANT DEFICIENCY

2018-003

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.*

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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, 2018, 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 June 13, 2019. 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. Our audit considered all of the listed categories.

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, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* 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

CliftonLarsonAllen LLP

Brainerd, Minnesota
June 13, 2019