

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA**

FINANCIAL REPORT

DECEMBER 31, 2009 AND 2008

**BRAINERD PUBLIC UTILITIES
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DECEMBER 31, 2009 AND 2008**

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INTRODUCTORY SECTION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ORGANIZATIONAL DATA
DECEMBER 31, 2009**

COMMISSION

| | | Term Expires <u>December 31,</u> |
|-------------------|--|-------------------------------------|
| President | Don Stang | 2012 |
| Vice President | Don Samuelson | 2013 |
| Commission Member | Mark O'Day (November 2009 Appointment) | 2010 |
| Commission Member | Don Sievek | 2014 |
| Commission Member | William Wroolie | 2011 |

ADMINISTRATION

| | |
|---------------------------------------|-----------------|
| Superintendent of Utilities | Tom Phelps |
| Commission Secretary | Todd Wicklund |
| Electric Line Supervisor | LeRoy VanVickle |
| Water Supervisor | Darwin Cole |
| Wastewater Treatment Plant Supervisor | Mike Larson |
| Technology Supervisor | Scott Sjolund |
| Accounting Supervisor | Julie Batters |

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

We have audited the accompanying financial statements of the Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of BPU's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BPU as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the basic financial statements, BPU adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (Statement No. 45) for the year ended December 31, 2009. Adoption of the provisions of this statement results in significant changes in liabilities and expenses related to postemployment benefits.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2010 on our consideration of BPU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.



Brainerd Public Utilities Commission
Brainerd Public Utilities

The management's discussion and analysis and schedule of funding progress on pages 4 through 12 and 36 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of BPU. The introductory section and supplementary information are presented for purposes of additional analysis and are not required parts of the basic financial statements. The introductory section and supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



LarsonAllen LLP

Brainerd, Minnesota
June 1, 2010

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2009 AND 2008**

As Management of Brainerd Public Utilities (BPU), we offer readers of our financial statements this narrative overview and analysis of the financial activities of BPU for the year ended December 31, 2009 in comparison with the two prior year financial results. Please read it in conjunction with BPU's financial statements and accompanying notes, which follow this section.

Financial Highlights

- Total assets at the end of 2009, 2008 and 2007 were \$71,416,536, \$52,382,458 and \$46,812,178, respectively. Total assets exceeded liabilities at the end of 2009, 2008 and 2007 by \$42,264,205, \$36,608,682 and \$33,361,498, respectively.
- Total assets at December 31, 2009 increased \$19,034,078 over the prior year primarily due to ongoing construction of new wastewater treatment facility.
- Total net assets increased at the end of 2009, 2008 and 2007 by \$5,655,523, \$3,247,184 and \$2,927,618, respectively.
- The increases in capital assets for the past three years and the events causing those increases are noted below:

| | 2009 | 2008 | 2007 |
|--|----------------------|---------------------|---------------------|
| Additions and Transfers to Capital Assets Being Depreciated (By Department) | | | |
| Electric | \$ 3,040,539 | \$ 6,441,500 | \$ 1,624,130 |
| Water | 456,578 | 592,683 | 305,161 |
| Water - Capital Contributions from City | 115,579 | 729,138 | 863,228 |
| Wastewater Treatment | 177,745 | 49,844 | 42,797 |
| General Plant | 751,044 | 536,280 | 66,484 |
| | <u>4,541,485</u> | <u>8,349,445</u> | <u>2,901,800</u> |
| Additions to Construction in Progress | 16,300,082 | 4,799,455 | 3,984,901 |
| Transfers from Construction in Progress to Capital Assets Being Depreciated | (2,479,195) | (6,341,346) | (974,655) |
| Deletions and Transfers | (700) | (452,047) | (21,838) |
| Normal Annual Depreciation | <u>(2,612,193)</u> | <u>(2,117,477)</u> | <u>(2,086,599)</u> |
| Total | <u>\$ 15,749,479</u> | <u>\$ 4,238,030</u> | <u>\$ 3,803,609</u> |

- Total long-term liabilities for 2009 increased \$11,394,411 over prior year primarily as a result of issuance of \$13,061,075 of General Obligation Build America Bonds. These bonds were issued to finance the construction costs pertaining to expansion of wastewater treatment facility.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2009 AND 2008**

Overview of the Financial Statements

The Management's Discussion and Analysis is intended to serve as an introduction to BPU's basic financial statements. BPU's basic financial statements are composed of Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, Statements of Cash Flows, and Notes to the Financial Statements. This report also contains other supplementary information and statistical information in addition to the basic financial statements themselves.

Basic Financial Statements. The financial statements are designed to provide readers with an overview of BPU's finances, in a manner similar to private-sector business.

The *Balance Sheets* presents information on all of BPU's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of BPU is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Assets* presents information showing how BPU's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The increase or decrease in net assets may serve as an indicator of the effect of BPU's current year operations on its financial position.

The *Statements of Cash Flows* summarizes all of BPU's cash flows into four categories, as applicable: 1) cash flows from operating activities, 2) cash flows from non-capital financing activities, 3) cash flows from capital and related financing activities, and 4) cash flows from investing activities. The *Statements of Cash Flows*, along with the related notes and information in other financial statements, can be useful in assessing the following:

- Reasons for the difference between BPU's operating cash flows and operating income
- The effect on BPU's financial position of cash and noncash transactions from investing, capital and financing activities.

The *Notes to the Financial Statements* provides additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Balance Sheets – As noted earlier, net assets may serve over time as a useful indicator of BPU's financial position. In the case of BPU, assets exceeded liabilities for 2009, 2008 and 2007 by \$42,264,205, \$36,608,682 and \$33,361,498, respectively.

The largest portion of BPU's net assets (69%), at December 31, 2009, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. Although BPU's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2009 AND 2008**

Financial Analysis (Continued)

Condensed Balance Sheets

| | December 31, | | | Change | |
|---|----------------------|----------------------|----------------------|----------------------|---------------------|
| | 2009 | 2008 | 2007 | 2009 to 2008 | 2008 to 2007 |
| Net Capital Assets | \$ 48,099,370 | \$ 32,349,891 | \$ 28,111,861 | \$ 15,749,479 | \$ 4,238,030 |
| Restricted Assets | 10,663,175 | 7,406,754 | 10,285,891 | 3,256,421 | (2,879,137) |
| Current Assets | 12,430,452 | 12,413,052 | 8,214,362 | 17,400 | 4,198,690 |
| Other Assets | 223,539 | 212,761 | 200,064 | 10,778 | 12,697 |
| Total Assets | \$ 71,416,536 | \$ 52,382,458 | \$ 46,812,178 | \$ 19,034,078 | \$ 5,570,280 |
| Current Liabilities | \$ 5,303,639 | \$ 3,319,495 | \$ 2,059,363 | \$ 1,984,144 | \$ 1,260,132 |
| Long-Term Liabilities | 23,848,692 | 12,454,281 | 11,391,317 | 11,394,411 | 1,062,964 |
| Total Liabilities | 29,152,331 | 15,773,776 | 13,450,680 | 13,378,555 | 2,323,096 |
| Invested in Utility Plant, Net of Related Debt | 29,033,909 | 26,403,240 | 26,476,886 | 2,630,669 | (73,646) |
| Restricted Net Assets | 5,026,704 | 139,849 | 105,346 | 4,886,855 | 34,503 |
| Unrestricted Net Assets | 8,203,592 | 10,065,593 | 6,779,266 | (1,862,001) | 3,286,327 |
| Total Net Assets | 42,264,205 | 36,608,682 | 33,361,498 | 5,655,523 | 3,247,184 |
| Total Liabilities and Net Assets | \$ 71,416,536 | \$ 52,382,458 | \$ 46,812,178 | \$ 19,034,078 | \$ 5,570,280 |

For 2009, \$5,026,704 (12%) of BPU's net assets represents resources that are restricted. The remaining balance of unrestricted net assets of \$8,203,592 (19%) may be used to meet BPU ongoing obligations.

Statement of Revenues, Expenses and Changes in Net Assets

2009

Total operating revenues for 2009 decreased \$1,278,782 (6.0%) from prior year. Electric Department decreased approximately \$1.3 million primarily due to decrease in commercial sales, Water Department decreased approximately \$35,000 primarily due to decrease in commercial sales, and Wastewater Treatment Department increased approximately \$51,000 due to an increase in monthly debt service charges received from wastewater treatment customers to be used for payment of future debt service payments on treatment plant expansion. Total operating expenses for 2009 increased \$553,169 (3.0%) from prior year. Of this amount, approximately \$164,000 was due to higher purchased power costs and \$455,000 was due to higher depreciation charges on wastewater treatment facilities.

Total nonoperating revenue for 2009 decreased \$184,274 from prior year. Of this amount, approximately \$50,000 in additional local option sales tax proceeds was recorded in wastewater treatment to be used for payment of future debt service payments on treatment plant expansion, approximately \$257,000 of losses in disposal of main electric substation capital assets was recorded due to installation of three new 47 MW transformers in prior year, interest income increased approximately \$5,000, additional approximate \$401,000 and \$137,000 of interest expense was recorded in the Electric and Wastewater Treatment Departments, respectively, and approximately

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2009 AND 2008**

Financial Analysis (Continued)

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

2009 (Continued)

\$19,141 of interest was received from the City of Baxter for payment on notes receivable related to the expansion of the wastewater treatment facility.

2008

Total operating revenues for 2008 increased \$366,910 (1.8%) from prior year. Electric Department increased approximately \$172,000 due to slight increase in residential and commercial sales, Water Department decreased approximately \$194,000 due to no water sales to the City of Baxter in 2008, and Wastewater Treatment Department increased approximately \$389,000 due to an increase in monthly debt service charges received from wastewater treatment customers to be used for payment of future debt service payments on treatment plant expansion. Total operating expenses for 2008 decreased \$137,926 (.7%) from prior year.

Total nonoperating revenue for 2008 decreased \$92,268 from prior year. Of this amount, approximately \$273,000 in additional local option sales tax proceeds was recorded in wastewater treatment to be used for payment of future debt service payments on treatment plant expansion, approximately \$258,000 of losses in disposal of main electric substation capital assets was recorded due to installation of three new 47 MW transformers, interest income decreased approximately \$65,000, and approximately \$37,000 of interest expense was recorded in the Electric Department.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2009 AND 2008**

Financial Analysis (Continued)

Condensed Revenues, Expenses and Changes in Net Assets

| | For the Year Ended December 31, | | | Change | |
|--|---------------------------------|----------------------|----------------------|---------------------|--------------------|
| | 2009 | 2008 | 2007 | 2009 to 2008 | 2008 to 2007 |
| OPERATING REVENUES | | | | | |
| Electric | \$16,280,132 | \$ 17,575,008 | \$ 17,402,759 | \$(1,294,876) | \$ 172,249 |
| Water | 1,607,258 | 1,642,448 | 1,836,424 | (35,190) | (193,976) |
| Wastewater Treatment | 2,149,284 | 2,098,000 | 1,709,363 | 51,284 | 388,637 |
| Total Operating Revenue | 20,036,674 | 21,315,456 | 20,948,546 | (1,278,782) | 366,910 |
| OPERATING EXPENSES | | | | | |
| Production and Treatment | 1,004,391 | 1,023,887 | 1,006,861 | (19,496) | 17,026 |
| Purchased Power | 11,752,885 | 11,588,494 | 12,112,189 | 164,391 | (523,695) |
| Distribution and Collection | 2,064,280 | 1,959,805 | 1,719,867 | 104,475 | 239,938 |
| Administration | 2,021,310 | 2,172,974 | 2,043,246 | (151,664) | 129,728 |
| Depreciation and Amortization | 2,634,226 | 2,178,763 | 2,179,686 | 455,463 | (923) |
| Total Operating Expenses | 19,477,092 | 18,923,923 | 19,061,849 | 553,169 | (137,926) |
| OPERATING INCOME | 559,582 | 2,391,533 | 1,886,697 | (1,831,951) | 504,836 |
| NONOPERATING REVENUE | | | | | |
| Interest Income - Investments | 286,480 | 281,133 | 346,618 | 5,347 | (65,485) |
| Interest Income - Notes Receivable | 19,141 | - | - | 19,141 | - |
| Interest Expense | (575,672) | (37,493) | - | (538,179) | (37,493) |
| Local Option Sales Tax | 854,427 | 804,924 | 532,276 | 49,503 | 272,648 |
| Federal Grant Revenue - Build America Bond | 23,091 | - | - | 23,091 | - |
| Gain (Loss) on Disposal of Capital Assets | (700) | (257,523) | 4,415 | 256,823 | (261,938) |
| Total Nonoperating Revenue | 606,767 | 791,041 | 883,309 | (184,274) | (92,268) |
| INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS | 1,166,349 | 3,182,574 | 2,770,006 | (2,016,225) | 412,568 |
| CAPITAL CONTRIBUTIONS | 5,125,637 | 729,138 | 863,228 | 4,396,499 | (134,090) |
| TRANSFERS TO THE CITY | (636,463) | (664,528) | (705,616) | 28,065 | 41,088 |
| CHANGE IN NET ASSETS | 5,655,523 | 3,247,184 | 2,927,618 | 2,408,339 | 319,566 |
| Net Assets - Beginning | 36,608,682 | 33,361,498 | 30,433,880 | 3,247,184 | 2,927,618 |
| NET ASSETS - ENDING | <u>\$42,264,205</u> | <u>\$ 36,608,682</u> | <u>\$ 33,361,498</u> | <u>\$ 5,655,523</u> | <u>\$3,247,184</u> |

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2009 AND 2008**

Capital Assets

Capital Assets – BPU's capital assets, as of December 31, 2009, 2008 and 2007, amounted to \$48,099,370, \$32,349,891 and \$28,111,861, respectively (net of accumulated depreciation). The following table summarizes capital assets, net of depreciation.

Condensed Schedule of Capital Assets

| | December 31, | | | Change | |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|---------------------|
| | 2009 | | | 2009 to | 2008 to |
| | 2009 | 2008 | 2007 | 2008 | 2007 |
| Electric Department | | | | | |
| Distribution System | \$ 15,076,941 | \$ 12,994,424 | \$ 7,668,053 | \$ 2,082,517 | \$ 5,326,371 |
| Street and Security Lighting System | 408,729 | 287,941 | 283,444 | 120,788 | 4,497 |
| Water Department | | | | | |
| Production Facilities | 1,150,942 | 1,100,332 | 1,039,995 | 50,610 | 60,337 |
| Distribution System | 6,979,014 | 6,850,983 | 5,986,529 | 128,031 | 864,454 |
| Wastewater Treatment Department | | | | | |
| Lift Station Facilities | 1,485,959 | 1,496,068 | 1,587,945 | (10,109) | (91,877) |
| Treatment Facilities | 1,218,956 | 2,035,609 | 2,633,033 | (816,653) | (597,424) |
| Land and Land Improvements | 1,499,685 | 799,528 | 344,817 | 700,157 | 454,711 |
| Machinery and Equipment | 520,009 | 605,836 | 629,406 | (85,827) | (23,570) |
| Furniture and Fixtures | 113,744 | 133,682 | 179,845 | (19,938) | (46,163) |
| Transportation Equipment | 322,122 | 408,633 | 522,519 | (86,511) | (113,886) |
| Service Center | 2,073,537 | 2,208,010 | 2,265,539 | (134,473) | (57,529) |
| Construction in Progress | 17,249,732 | 3,428,845 | 4,970,736 | 13,820,887 | (1,541,891) |
| Total | <u>\$ 48,099,370</u> | <u>\$ 32,349,891</u> | <u>\$ 28,111,861</u> | <u>\$ 15,749,479</u> | <u>\$ 4,238,030</u> |

Major capital asset transactions for 2009 and 2008 include the following:

| | 2009 | 2008 |
|--|------------|------------|
| <u>Electric</u> | | |
| Distribution Transformers and Metering Purchased | \$ 388,100 | \$ 438,100 |
| Acquisition of Transformers and Meters | 1,337,100 | 3,586,000 |
| Expansion of Distribution Feeder System | 688,400 | 1,627,600 |
| Distribution System Improvements | 625,400 | 483,500 |
| <u>Water</u> | | |
| Acquisition of Meters and Valves | 145,000 | 143,500 |
| Distribution System Improvements | 311,600 | 438,500 |
| Water System Contributed Capital from City | 115,600 | 729,100 |
| <u>Wastewater</u> | | |
| Lift Station Improvements | 89,100 | - |
| Treatment Facility Improvements | 85,500 | - |
| Acquisition of 42 Acres of Land | 724,100 | - |
| Land Improvements to Old Wastewater Treatment Site | - | 457,300 |
| <u>Construction in Progress</u> | | |
| Wastewater Treatment Expansion Project | 15,020,000 | 2,251,000 |
| Electric System Improvements Project | - | 1,209,900 |

**BRainerd PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2009 AND 2008**

Debt Administration

BPU entered into a capital lease totaling \$250,000 during 2004. Payment terms are \$25,000 annual payments for a ten year period commencing in 2004. The outstanding balance at December 31, 2009 was \$100,000. Electric Utility Revenue Bonds (Series 2007A) were issued in 2007 in the amount of \$11,140,000 for improvements to the electric distribution system including replacement of the main substation. The revenue bonds outstanding of the BPU are issued on behalf of BPU by the City of Brainerd and are solely backed by a pledge of net revenues of BPU.

In February 2008, the City of Brainerd, on behalf of BPU, entered into a project loan agreement in the amount of \$1,965,098 between the State of Minnesota, by and through the Public Facilities Authority (PFA) and the BPU, for engineering and design costs related to the wastewater treatment facility expansion. The City of Brainerd, on behalf of BPU, issued a General Obligation Sewer Revenue Note, Series 2008, to the PFA, evidencing its obligation to repay the loan. The revenue note outstanding of the BPU is backed by the full faith and credit and taxing powers of the City of Brainerd and a pledge of net revenues of BPU.

In May 2009, the City of Brainerd, on behalf of BPU, entered into a project loan agreement in the amount of \$28,800,000 between the State of Minnesota, by and through the PFA and the BPU, for construction costs related to the expansion to the wastewater treatment facility. The City of Brainerd, on behalf of BPU, issued a General Obligation Build America Bond, Series 2009 (Wastewater Project), to the PFA, evidencing its obligation to repay the loan. The City has complied with all requirements of the American Reinvestment and Recovery Act (ARRA) to issue the Note as a Build America Bond (BAB) and the City has irrevocably elected to have the Note constitute a BAB and to have the direct pay tax credit provision of the ARRA apply to the Note. The bond outstanding of the BPU is backed by the full faith and credit and taxing powers of the City of Brainerd and a pledge of net revenues of BPU.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2009 AND 2008**

Budgetary Highlights

The BPU Commission adopts an annual Operating Budget and a Capital Improvement Budget. Because of its enterprise nature, the budgets are not operated as statutory budgets. The Commission and Utilities staff review budget results monthly and the budget is used as a financial management tool. A summary of the 2009 Operating Budget Analysis is presented as follows:

| | 2009 Budget | 2009 Actual | Favorable (Unfavorable) Variance |
|--|----------------|----------------|--|
| Utility Operating Revenue | \$ 20,573,000 | \$ 19,759,240 | \$ (813,760) |
| Other Operating Revenue | 310,000 | 277,434 | (32,566) |
| Total Operating Revenue | 20,883,000 | 20,036,674 | (846,326) |
| Purchased Power | 12,600,000 | 11,752,885 | 847,115 |
| Other Operating Expense | 5,088,700 | 5,089,981 | (1,281) |
| Depreciation and Amortization Expense | 2,249,300 | 2,634,226 | (384,926) |
| Total Operating Expense | 19,938,000 | 19,477,092 | 460,908 |
| Operating Income | 945,000 | 559,582 | (385,418) |
| Nonoperating Revenue | 551,000 | 606,767 | 55,767 |
| Income Before Capital Contributions from City and Operating Transfers to the City | 1,496,000 | 1,166,349 | (329,651) |
| Capital Contributions | - | 5,125,637 | 5,125,637 |
| Operating Transfers to the City | (670,000) | (636,463) | 33,537 |
| Change in Net Assets | \$ 826,000 | \$ 5,655,523 | \$ 4,829,523 |

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2009 AND 2008**

Economic Factors and Next Year's Budget and Rates

A summary of the 2010 Operating Budget approved by the Commission is presented as follows:

| | 2010 <u>Budget</u> |
|--|-----------------------|
| Utility Operating Revenue | \$ 20,010,000 |
| Other Operating Revenue | <u>289,000</u> |
| Total Operating Revenue | 20,299,000 |
| Purchased Power | 12,348,000 |
| Other Operating Expense | 5,125,200 |
| Depreciation and Amortization Expense | <u>2,280,800</u> |
| Total Operating Expense | <u>19,754,000</u> |
| Operating Income | 545,000 |
| Nonoperating Revenue | <u>883,000</u> |
| Income Before Capital Contributions from City and Transfers to the City | 1,428,000 |
| Transfers to the City | <u>(722,000)</u> |
| Change in Net Assets | <u>\$ 706,000</u> |

BPU adjusted all utility rates effective October 1, 2009. The primary reasons for the adjustment are due to Minnesota Power, the wholesale power provider for BPU, raising its rates effective January 1, 2009, to wholesale municipal customers it serves and raising the monthly debt service charge to wastewater treatment customers in anticipation of the wastewater treatment expansion project which is projected to start operations in the winter of 2010.

Requests for Information

This financial report is designed to provide a general overview of the BPU's, finances for all those expressing an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, 8027 Highland Scenic Road, Baxter, MN 56425 or by email at twicklund@bpu.org or by phone at (218)825-3220.

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**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
BALANCE SHEETS
DECEMBER 31, 2009 AND 2008**

| ASSETS | 2009 | 2008 |
|--|---------------|---------------|
| UTILITY PLANT | | |
| In Service | \$ 57,904,477 | \$ 53,629,207 |
| Construction in Progress | 17,249,732 | 3,428,845 |
| Total Investment in Utility Plant | 75,154,209 | 57,058,052 |
| Less: Accumulated Depreciation | (27,054,839) | (24,708,161) |
| Net Utility Plant | 48,099,370 | 32,349,891 |
| RESTRICTED ASSETS | | |
| Cash and Investments | 5,772,483 | 7,406,754 |
| Notes Receivable | 4,890,692 | - |
| Total Restricted Assets | 10,663,175 | 7,406,754 |
| CURRENT ASSETS | | |
| Cash and Investments | 9,108,598 | 8,905,638 |
| Accounts Receivable | 2,256,975 | 2,358,620 |
| Interest Receivable | 68,371 | 66,759 |
| Due from the City of Brainerd | 112,381 | 132,977 |
| Inventory | 815,346 | 887,216 |
| Prepaid Expenses | 68,781 | 61,842 |
| Total Current Assets | 12,430,452 | 12,413,052 |
| OTHER ASSETS | | |
| Service Territory Acquisitions, Net of Accumulated Amortization | 45,788 | 53,631 |
| Deferred Charges | 177,751 | 159,130 |
| Total Other Assets | 223,539 | 212,761 |
| Total Assets | \$ 71,416,536 | \$ 52,382,458 |

| | 2009 | 2008 |
|---|----------------------|----------------------|
| LIABILITIES AND NET ASSETS | | |
| NET ASSETS | | |
| Invested in Utility Plant, Net of Related Debt | \$ 29,033,909 | \$ 26,403,240 |
| Restricted | 5,026,704 | 139,849 |
| Unrestricted | 8,203,592 | 10,065,593 |
| Total Net Assets | <u>42,264,205</u> | <u>36,608,682</u> |
| LONG-TERM LIABILITIES | | |
| Electric Utility Revenue Bonds Payable | 9,545,000 | 10,140,000 |
| General Obligation Sewer Revenue Notes Payable | 1,421,000 | 1,607,000 |
| General Obligation Build America Bonds Payable | 12,165,075 | - |
| Compensated Absences | 620,629 | 607,281 |
| Other Postemployment Benefit Obligation | 21,988 | - |
| Capital Lease Payable | 75,000 | 100,000 |
| Total Long-Term Liabilities | <u>23,848,692</u> | <u>12,454,281</u> |
| CURRENT LIABILITIES | | |
| Accounts Payable | 2,257,108 | 1,511,810 |
| Electric Utility Revenue Bonds Payable | 595,000 | 570,000 |
| General Obligation Sewer Revenue Notes Payable | 186,000 | 182,000 |
| General Obligation Build America Bonds Payable | 900,000 | - |
| Capital Lease Payable | 25,000 | 25,000 |
| Payable to City of Brainerd | 266,417 | 139,849 |
| Accrued Expenses | | |
| Salaries and Withholding Taxes | 204,104 | 189,776 |
| Sales Taxes | 58,400 | 59,435 |
| Current Liabilities Payable from Restricted Assets: | | |
| Bond Interest | 147,609 | 52,069 |
| Conservation Incentive Program Payable | 453,193 | 387,801 |
| Customer Deposits | 210,808 | 201,755 |
| Total Current Liabilities | <u>5,303,639</u> | <u>3,319,495</u> |
| Total Liabilities | <u>29,152,331</u> | <u>15,773,776</u> |
| Total Liabilities and Net Assets | <u>\$ 71,416,536</u> | <u>\$ 52,382,458</u> |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

| OPERATING REVENUES | 2009 | 2008 |
|--|---------------|---------------|
| Utility Revenues | | |
| Residential | \$ 5,910,565 | \$ 5,877,364 |
| Commercial | 6,425,182 | 6,911,927 |
| Large Commercial | 4,266,169 | 4,658,227 |
| Industrial | 2,270,249 | 2,502,964 |
| City of Brainerd | 553,335 | 711,864 |
| Internal Use | 333,740 | 315,659 |
| Total Utility Revenues | 19,759,240 | 20,978,005 |
| Other Operating Revenues | | |
| Penalties | 115,068 | 118,233 |
| Other | 162,366 | 219,218 |
| Total Other Operating Revenues | 277,434 | 337,451 |
| Total Operating Revenues | 20,036,674 | 21,315,456 |
| OPERATING EXPENSES | | |
| Production and Treatment | | |
| Salaries and Wages | 409,978 | 439,678 |
| Purchased Services | 302,704 | 291,735 |
| Supplies and Maintenance | 149,629 | 130,633 |
| Employee Benefits | 132,761 | 153,091 |
| Other Charges | 9,319 | 8,750 |
| Total Production Expenses | 1,004,391 | 1,023,887 |
| Purchased Power | 11,752,885 | 11,588,494 |
| Distribution and Collection | | |
| Salaries and Wages | 1,000,391 | 963,514 |
| Purchased Services | 467,250 | 357,696 |
| Supplies and Maintenance | 178,029 | 186,212 |
| Employee Benefits | 403,291 | 436,351 |
| Other Charges | 15,319 | 16,032 |
| Total Distribution and Collection Expenses | 2,064,280 | 1,959,805 |
| Administration | | |
| Salaries and Wages | 1,047,502 | 1,080,730 |
| Purchased Services | 278,973 | 244,749 |
| Supplies and Maintenance | 68,018 | 73,317 |
| Insurance and Bonds | 156,233 | 164,005 |
| Employee Benefits | 341,007 | 429,890 |
| Other Charges | 129,577 | 180,283 |
| Total Administration Expenses | 2,021,310 | 2,172,974 |
| Depreciation and Amortization | 2,634,226 | 2,178,763 |
| Total Operating Expenses | \$ 19,477,092 | \$ 18,923,923 |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

| | <u>2009</u> | <u>2008</u> |
|--|-----------------------------|-----------------------------|
| OPERATING INCOME | \$ 559,582 | \$ 2,391,533 |
| NONOPERATING REVENUE | | |
| Interest Income - Investments | 286,480 | 281,133 |
| Interest Income - Notes Receivable | 19,141 | - |
| Interest Expense | (575,672) | (37,493) |
| Local Option Sales Tax | 854,427 | 804,924 |
| Federal Grant Revenue - Build America Bond | 23,091 | - |
| Loss on Disposal of Capital Assets | (700) | (257,523) |
| Total Nonoperating Revenue | <u>606,767</u> | <u>791,041</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS | 1,166,349 | 3,182,574 |
| CAPITAL CONTRIBUTIONS | 5,125,637 | 729,138 |
| TRANSFERS TO THE CITY | <u>(636,463)</u> | <u>(664,528)</u> |
| CHANGE IN NET ASSETS | 5,655,523 | 3,247,184 |
| Net Assets - Beginning | <u>36,608,682</u> | <u>33,361,498</u> |
| NET ASSETS - ENDING | <u><u>\$ 42,264,205</u></u> | <u><u>\$ 36,608,682</u></u> |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

| | 2009 | 2008 |
|---|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received from Customers | \$ 20,229,085 | \$ 20,499,906 |
| Cash Payments to Employees for Services | (2,430,195) | (2,322,812) |
| Cash Payments to Other Suppliers of Goods or Services | (13,004,034) | (13,258,237) |
| | 4,794,856 | 4,918,857 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfer to Primary Government | (509,895) | (630,025) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Additions to Utility Plant | (18,729,280) | (6,170,607) |
| Proceeds from Issuance of Bonds and Notes | 13,065,075 | 1,965,098 |
| Proceeds from Local Option Sales Tax | 857,667 | 850,792 |
| Principal Paid on Long-Term Debt | (752,000) | (606,098) |
| Interest Paid on Long-Term Debt | (480,132) | (589,319) |
| Additions to Deferred Charges | (18,621) | 2,396 |
| Payments on Capital Lease | (25,000) | (25,000) |
| Principal Received on Notes Receivable | 119,366 | - |
| Federal Grant Revenue - Build America Bond | 23,091 | - |
| Proceeds from Sale of Utility Plant | - | 194,526 |
| | (5,939,834) | (4,378,212) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Received | 406,657 | 583,170 |
| Purchase of Investments | (4,881,150) | (2,502,124) |
| Redemption of Investments | 3,211,273 | 6,701,687 |
| | (1,263,220) | 4,782,733 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (2,918,093) | 4,693,353 |
| Cash and Cash Equivalents - Beginning | 9,278,987 | 4,585,634 |
| CASH AND CASH EQUIVALENTS - ENDING | \$ 6,360,894 | \$ 9,278,987 |

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

| | 2009 | 2008 |
|---|--------------|--------------|
| RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Operating Income | \$ 559,582 | \$ 2,391,533 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 2,634,226 | 2,178,763 |
| Revenue Reduced for Uncollectible Accounts | 29,160 | 65,695 |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable | 119,001 | (880,479) |
| Prepaid Expenses | (6,939) | 38,767 |
| Inventories | 71,870 | (35,707) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | 1,264,882 | 860,112 |
| Accrued Liabilities | 22,346 | 194,051 |
| Conservation Incentive Program Payable | 65,392 | 55,158 |
| Accrued Compensated Absences | 13,348 | 50,964 |
| Other Postemployment Benefit Obligation | 21,988 | - |
| Net Cash Provided by Operating Activities | \$ 4,794,856 | \$ 4,918,857 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS: | | |
| Cash and Investments - Current Assets | \$ 9,108,598 | \$ 8,905,638 |
| Cash and Investments - Restricted Assets | 5,772,483 | 7,406,754 |
| Cash and Investments - Balance Sheets | 14,881,081 | 16,312,392 |
| Less: Investments not Meeting the Definition of Cash Equivalents | 8,520,187 | 7,033,405 |
| Cash and Cash Equivalents - Ending | \$ 6,360,894 | \$ 9,278,987 |
| NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Contribution of Utility Plant from Primary Government | \$ 115,579 | \$ 729,138 |
| Contribution of Notes Receivable | 5,010,058 | - |
| Purchase of Utility Plant on Account | (519,369) | (31,633) |
| Net Increase (Decrease) in Fair Value of Investments | (102,648) | 39,466 |

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**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Brainerd Public Utilities (BPU) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

The financial statements include the operations of the BPU. The Electric, Water and Wastewater Treatment Departments are treated as a single enterprise fund. The BPU is governed by a five-member Board of Commissioners. Board members are appointed by the Mayor and approved by the City Council to serve five year terms. No other operations are controlled by the Commission. Rates charged to customers are established by the Commission.

Financial Reporting Entity

The BPU is a component unit within the City of Brainerd. Component units are legally separate organizations for which elected officials of the primary government (City of Brainerd) are financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. Component unit status is determined using the following criteria:

The City is financially accountable if it appoints a voting majority of the organization's governing body and is either 1) able to impose its will on that organization, or 2) there is a potential for the organization to provide specific financial benefits to, or impose financial burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the City.

Since the BPU's operating and capital budgets must be approved by the City Council, it has the potential to provide specific financial benefits to the City. This capability qualifies the BPU as a component unit of the City. There are no component units of the BPU.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recognized when earned. Expenses are recorded when the related liability is incurred. The principal operating revenues and expenses are utility revenues and purchases, production, distribution, and administrative expenses.

In accordance with GASB Statement 20, the BPU has elected to apply the Governmental Accounting Standards Board (GASB) Statements and interpretations issued after November 30, 1989.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Proprietary funds distinguish operating revenues and expenses from other 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 BPU is charges to customers for sales of electricity, water, and wastewater treatment. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as other revenues and expenses.

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

Utility Plant and Depreciation

Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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.

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. The total interest expense incurred by BPU during the current fiscal year was \$575,672 which was expensed.

Depreciation of capital assets is computed using the straight-line method over the estimated service lives of the various assets as follows:

| | |
|----------------------------------|-------------|
| Land and Land Improvements | 10-20 years |
| Buildings | 5-30 years |
| Distribution Systems | 7-50 years |
| Production Systems | 5-50 years |
| Machinery and Equipment | 5-15 years |
| Transportation Equipment | 5-10 years |
| Collection and Treatment Systems | 5-80 years |

Deposits and Investments

BPU's cash and cash equivalents are considered to be cash on hand, demand deposits, non-negotiable certificates of deposit, repurchase agreements, and short-term investments with original maturities of three months or less from the date of acquisition.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits and Investments (Continued)

Investments consisting of government securities and commercial paper are recorded at fair value except for those with original maturities of under one year are recorded at cost.

Receivables/Payables

Outstanding balances between BPU and the primary government are reported as due from/to the City. An allowance for doubtful accounts is recorded monthly based on historical experience and management's evaluation of receivables at the end of year. Accounts are written off when deemed uncollectible.

Inventory

Inventories of material and supplies are recorded at average moving cost and valued at lower cost or market.

Compensated Absences

It is the BPU's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation and sick leave are recorded as expenses and liabilities as the benefits accrue to the employees. Employees are permitted to accumulate up to 240 hours of unused vacation benefits and 960 hours of unused sick benefits. These benefits are paid to employees upon retirement at the employee's current level of compensation conditioned on meeting certain length of service requirements. Severance benefits consist of lump sum retirement payments and postemployment health care benefits. The BPU maintains one retirement payment plan for its employee group. The BPU makes payment to an independent trustee who administers a health savings account for each retiree for unused sick pay accumulated at time of retirement.

Customer Deposits

Customer deposits are recorded for security deposits paid by customers to receive utility services. Deposits are credited to customer accounts with good credit history in accordance with criteria established in BPU policies. Customers are paid interest on deposits at the rate established annually by the Minnesota Department of Commerce.

Long-Term Liabilities

Long-term debt and other obligations are reported as BPU liabilities. Outstanding revenue bond and note debt of BPU is issued on behalf of BPU by the City of Brainerd and is backed by a pledge of net revenues of BPU. Bond and note issuance costs are deferred and amortized over the related life of the bonds and notes.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Meters are read throughout the month and revenues are recognized when utility services are billed to customers. The BPU does accrue revenues for services provided, but not billed, at the end of the year.

Electric Power Costs

Monthly bills from the wholesale power supplier, which are for power costs to the last day of the month, are reflected in the accounts.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by external parties. Current liabilities payable from these restricted assets are so classified.

Net Assets

Net assets represent the difference between assets and liabilities in the basic financial statements. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted in the basic financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

NOTE 2 UTILITY PLANT IN SERVICE

The following is a summary of the major classes of the plant in service:

| | <u>2009</u> | <u>2008</u> |
|-----------------------------------|----------------------|----------------------|
| Electric | \$ 25,088,493 | \$ 22,101,250 |
| Water | 14,298,984 | 13,797,909 |
| Wastewater Treatment | 12,737,831 | 12,656,738 |
| General Plant | <u>5,779,169</u> | <u>5,073,310</u> |
| Total Utility Plant in Service | <u>\$ 57,904,477</u> | <u>\$ 53,629,207</u> |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 2 UTILITY PLANT IN SERVICE (CONTINUED)

A summary of utility plant activity for the year ended December 31, 2009 is as follows:

| | Beginning Balance | Additions | Deductions | Ending Balance |
|--------------------------|----------------------|----------------------|---------------------|----------------------|
| Electric | \$ 22,101,250 | \$ 3,040,539 | \$ 53,296 | \$ 25,088,493 |
| Water | 13,797,909 | 572,157 | 71,082 | 14,298,984 |
| Wastewater Treatment | 12,656,738 | 177,745 | 96,652 | 12,737,831 |
| General Plant | 5,073,310 | 751,044 | 45,185 | 5,779,169 |
| Construction in Progress | 3,428,845 | 16,300,082 | 2,479,195 | 17,249,732 |
| | <u>57,058,052</u> | <u>20,841,567</u> | <u>2,745,410</u> | <u>75,154,209</u> |
| Accumulated Depreciation | (24,708,161) | (2,612,193) | (265,515) | (27,054,839) |
| Net Utility Plant | <u>\$ 32,349,891</u> | <u>\$ 18,229,374</u> | <u>\$ 2,479,895</u> | <u>\$ 48,099,370</u> |

A summary of utility plant activity for the year ended December 31, 2008 is as follows:

| | Beginning Balance | Additions | Deductions | Ending Balance |
|--------------------------|----------------------|----------------------|---------------------|----------------------|
| Electric | \$ 17,803,276 | \$ 6,441,500 | \$ 2,143,526 | \$ 22,101,250 |
| Water | 12,663,452 | 1,321,821 | 187,364 | 13,797,909 |
| Wastewater Treatment | 12,849,878 | 49,844 | 242,984 | 12,656,738 |
| General Plant | 4,574,823 | 536,280 | 37,793 | 5,073,310 |
| Construction in Progress | 4,970,736 | 4,799,455 | 6,341,346 | 3,428,845 |
| | <u>52,862,165</u> | <u>13,148,900</u> | <u>8,953,013</u> | <u>57,058,052</u> |
| Accumulated Depreciation | (24,750,304) | (2,117,477) | (2,159,620) | (24,708,161) |
| Net Utility Plant | <u>\$ 28,111,861</u> | <u>\$ 11,031,423</u> | <u>\$ 6,793,393</u> | <u>\$ 32,349,891</u> |

Capital assets not being depreciated totaled \$18,635,818 and \$4,098,439 at December 31, 2009 and 2008, respectively.

NOTE 3 RESTRICTED ASSETS

Cash and Investments

At December 31, 2009 and 2008, restricted cash and investments consisted of the following:

| | 2009 | 2008 |
|---|---------------------|---------------------|
| Customer Deposits | \$ 210,808 | \$ 201,755 |
| City of Brainerd Contribution | 136,012 | 139,849 |
| Conservation Incentive Program | 453,193 | 387,801 |
| Electric Utility Revenue Bonds Construction Reserve | 1,757,253 | 4,478,758 |
| Electric Utility Revenue Bonds Debt Service Reserve | 1,269,330 | 1,131,573 |
| General Obligation Revenue Notes and Bonds Debt Service Reserve | 1,945,887 | 1,067,018 |
| Total Restricted Cash and Investments | <u>\$ 5,772,483</u> | <u>\$ 7,406,754</u> |

Customer Deposits are amounts restricted for refunds of customer security deposits. City of Brainerd Contribution is restricted by agreement with City for monthly operating transfer to City and payment of

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

Cash and Investments (Continued)

wastewater collection and stormwater charges to City. Conservation Incentive Program is restricted by State Statute for electric customer conservation programs. Revenue Bonds Construction (electric system) and Debt Service Reserves represents amounts held in reserve under bond and note covenants to fund electric and wastewater treatment system improvements and bond principal and interest payments in the event operating funds are not sufficient to meet such purposes.

Restricted net assets at December 31, 2009 and 2008 included \$136,012 and \$139,849, respectively, representing wastewater collection and storm sewer charges collected on behalf of the City and the monthly operating contribution to the City which is described in Note 5. Restricted net assets at December 31, 2009 also included \$4,890,692 representing the amount of receivable from the City of Baxter as discussed below, for total restricted net assets at December 31, 2009 and 2008 of \$5,026,704 and \$139,849, respectively.

Notes Receivable

On February 17, 2009, the City of Brainerd, on behalf of BPU, entered into a financing agreement in a principal amount not to exceed \$35,000,000 with the City of Baxter related to the financing of the expansion of the wastewater treatment facility. Baxter will own one-third share of the expanded WWTF's capacity and Brainerd will own two-thirds of the expanded WWTF's capacity. The financing of the expanded WWTF is being funded by two loans from the Minnesota Public Finance Authority (PFA) to Brainerd. The detail of the two loans is described in Note 7.

Baxter agrees to finance its one-third share of the capital costs of the expanded WWTF and its obligation to do so has been evidenced by the issuance and sale of two Taxable General Obligation Utility Revenue Notes to Brainerd. The Baxter Notes are secured by the net revenues of the Baxter sewer utility and the revenues of a local option sales tax imposed by Baxter, and by Baxter's full-faith and credit and taxing powers.

The Baxter Notes contain a schedule of maturities and specified interest rate that corresponds to the maturity schedules and interest rates of the Brainerd loan agreements with PFA (See Note 7). The obligation of Baxter to make scheduled payments to Brainerd pursuant to the Baxter Notes is absolute and unqualified.

Note receivable activity for the year ended December 31, 2009, is as follows:

| | <u>Note No.1</u> | <u>Note No.2</u> | <u>Total</u> |
|-------------------|-------------------|--------------------|--------------------|
| Beginning Balance | \$ - | \$ - | \$ - |
| Additions | 655,033 | 4,355,025 | 5,010,058 |
| Payments Received | (119,366) | - | (119,366) |
| Ending Balance | <u>\$ 535,667</u> | <u>\$4,355,025</u> | <u>\$4,890,692</u> |

Additions to notes receivable are recorded as Contributed Capital on the Statements of Revenues, Expenses, and Changes in Net Assets. Interest received from Baxter, which is recorded as Interest Income for the year ended December 31, 2009, was \$19,141.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 4 DEPOSITS AND INVESTMENTS

Cash and investments are presented at December 31, 2009 and 2008, as follows:

| | 2009 | 2008 |
|---------------------------------|---------------|---------------|
| Restricted Cash and Investments | \$ 5,772,483 | \$ 7,406,754 |
| Current Cash and Investments | 9,108,598 | 8,905,638 |
| | \$ 14,881,081 | \$ 16,312,392 |

Cash and investments at December 31, 2009 and 2008, consisted of the following:

| | 2009 | 2008 |
|-------------|---------------|---------------|
| Petty Cash | \$ 1,500 | \$ 2,000 |
| Deposits | 1,999,681 | 4,084,940 |
| Investments | 12,879,900 | 12,225,452 |
| | \$ 14,881,081 | \$ 16,312,392 |

Deposits

In accordance with *Minnesota Statutes*, BPU maintains deposits at financial institutions that are authorized by the BPU Commission. All such depositories are members of the Federal Reserve System.

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2009 there were no deposits subject to custodial credit risk.

BPU follows *Minnesota Statutes* which require that all deposits be protected by insurance, surety bond or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Authorized collateral includes certain U.S. government securities, state or local institution other than that furnishing the collateral.

Authorized Investments

Under the provisions of the City of Brainerd's investment policy revised by Council on February 2, 2009 and in accordance with *Minnesota Statutes*, the BPU may invest in the following types of investments:

- securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by *Minnesota Statute* 118A.04, subd.6;
- mutual funds through shares of registered investments companies provided the mutual fund receives certain ratings depending on its investments;

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Authorized Investments (Continued)

- general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service (G.O. rated "A" or better and revenue obligation rated "AA" or better);
- banker's acceptances of United States banks;
- commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investments trust, and guaranteed investment contracts.

Risk Disclosures

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. BPU does not have a specific policy regarding interest rate risk.

Information about the sensitivity of the fair values of BPU's investments to market interest rate fluctuations is provided by the following table that shows the distribution of BPU's investments at December 31, 2009 by maturity:

| Investment Type | Investment Maturities (in Years) | | | Fair Value |
|--------------------------|----------------------------------|-------------|---------------------|----------------------|
| | Less Than 1 | 1-5 | 6-10 | |
| <u>December 31, 2008</u> | | | | |
| FHLB | \$ - | \$ - | \$ 976,797 | \$ 976,797 |
| FHLM | - | - | 1,929,765 | 1,929,765 |
| FNMA | - | - | 1,041,611 | 1,041,611 |
| FFCB | - | - | 763,050 | 763,050 |
| CP-Dexia Delaware | 1,066,000 | - | - | 1,066,000 |
| Mutual Fund | 2,742,964 | - | - | 2,742,964 |
| Repurchase Agreement | 4,359,713 | - | - | 4,359,713 |
| Total | \$ 8,168,677 | \$ - | \$ 4,711,223 | \$ 12,879,900 |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Risk Disclosures (Continued)

Interest Rate Risk (Continued)

The repurchase agreement investment as of December 31, 2009 represents an ongoing overnight repurchase agreement arrangement at applicable daily quoted rates. The rate at December 31, 2009 was 0.1 percent. Funds are re-deposited to BPU's bank account at 8:00 AM on the ensuing business day and the agreement is collateralized by federal or federal agency securities.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The BPU does not have a specific policy for credit risk, but follows *Minnesota Statutes* for allowable investments. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. S&P credit ratings for BPU's investments as of December 31, 2009 are as follows:

| Investment Type | S & P Rating | % of Investments |
|--------------------------|-----------------|---------------------|
| <u>December 31, 2009</u> | | |
| FHLB | AAA | 7.6% |
| FHLM | AAA | 15.0% |
| FNMA | AAA | 8.1% |
| FFCB | AAA | 5.9% |
| CP-Dexia Delaware | A1 | 8.3% |
| Mutual Fund | AAA | 21.3% |
| Repurchase Agreement | Not Rated | 33.8% |
| Total | | <u>100.0%</u> |

Concentration of Credit Risk

The investment policy of the BPU contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by *Minnesota Statutes*. Investments in any one issuer, as a percentage of total BPU investments as of December 31, 2009, are disclosed above.

Investments

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The BPU does not have a policy for custodial credit risk over investments.

As of December 31, 2009 BPU has a custodial credit risk of \$4,359,713 because the repurchase agreement investment is uninsured, unregistered and held by BPU's primary bank which is also the counterparty for the repurchase agreement.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 5 DUE TO CITY OF BRAINERD

The BPU acts as a collection agent for wastewater collection and storm sewer charges billed by the City. The BPU includes these charges on its own monthly utility billings and remits collection of these charges to the City on a monthly basis. At December 31, 2009 and 2008, the BPU owed the City the following:

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Monthly Operating Contribution | \$ 52,113 | \$ 52,606 |
| Water System Improvement Projects | 130,405 | - |
| Wastewater Collection and Storm Sewer Charges | 83,899 | 87,243 |
| Total | <u>\$ 266,417</u> | <u>\$ 139,849</u> |

NOTE 6 CAPITAL LEASE PAYABLE

On June 29, 2004 the BPU entered into a lease agreement with Brainerd Independent School District No. 181 (ISD No. 181) to acquire fiber optic strands from ISD No. 181. Per the agreement, the term of the lease will be for a 25 year period commencing June 29, 2004. At the conclusion of the lease, the BPU has the option to purchase the strands for \$1. The consideration for the 25-year lease will be \$250,000 payable in ten \$25,000 annual payments, commencing on December 31, 2004. BPU's annual lease payments will be in cash or any combination of cash and/or in-kind services as may be mutually agreed by the BPU and ISD No. 181. Capital assets recorded under capital leases total \$250,000 at both December 31, 2009 and 2008, with related accumulated depreciation of \$59,756 and \$46,477, respectively. Depreciation expense related to this asset for the years ended December 31, 2009 and 2008 was \$13,279 and \$13,279, respectively.

Capital lease activity for the year ended December 31, 2009 was as follows:

| | |
|-------------------|-------------------|
| Beginning Balance | \$ 125,000 |
| Reductions | (25,000) |
| Ending Balance | <u>\$ 100,000</u> |

Summary of capital lease minimum future payments consist of the following:

| Year Ended December 31, | |
|----------------------------|-------------------|
| 2010 | \$ 25,000 |
| 2011 | 25,000 |
| 2012 | 25,000 |
| 2013 | 25,000 |
| Total | <u>\$ 100,000</u> |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 7 LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| <i>Electric Utility Revenue Bonds</i> | | |
| Electric Utility Revenue Bonds, Series 2007A, issued 09/01/07 with a final maturity of 12/1/22. Interest is paid semi-annually and principal is payable annually. The interest rate ranges from 4.0% to 4.375%. Total original issue was \$11,140,000. | \$ 10,140,000 | \$ 10,710,000 |
| <i>General Obligation Sewer Revenue Notes</i> | | |
| General Obligation Sewer Revenue Note, Series 2008, issued 02/08/08 with a final maturity of 8/20/17. Interest is paid semi-annually and principal is payable annually. The interest rate is 2.23%. Total original issue was \$1,965,098. | 1,607,000 | 1,789,000 |
| <i>General Obligation Build America Bonds</i> | | |
| General Obligation Build America Bonds, Series 2009, issued 5/4/09 with a final maturity of 8/20/28. Interest is paid semi-annually and principal is payable annually. The interest rate is 3.233%. Total original issue is limited to \$28,800,000. | <u>13,065,075</u> | <u>-</u> |
| Total Debt | 24,812,075 | 12,499,000 |
| <u>Less Amount Due Within One Year</u> | | |
| Electric Utility Revenue Bonds | 595,000 | 570,000 |
| General Obligation Sewer Revenue Notes | 186,000 | 182,000 |
| General Obligation Build America Bonds | <u>900,000</u> | <u>-</u> |
| Net Long-Term Debt | <u>\$ 23,131,075</u> | <u>\$ 11,747,000</u> |

During September 2007, the City of Brainerd, on behalf of BPU, issued \$11,140,000 in Electric Utility Revenue Bonds, with interest rates from 4.0% to 4.375%, maturing in December 2022, for electric distribution system improvements, including the purchase of three 47.5 kV transformers at the main substation.

On February 8, 2008, the City of Brainerd, on behalf of BPU, entered into a project loan agreement in the amount of \$1,965,098 between the State of Minnesota, by and through the Public Facilities Authority (PFA) and the BPU, for engineering and design costs related to the wastewater treatment facility expansion. The City of Brainerd, on behalf of BPU, issued a General Obligation Sewer Revenue Note to the PFA, evidencing its obligation to repay the loan. The interest rate on the loan is 2.23% and the loan matures August 20, 2017.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 7 LONG-TERM DEBT (CONTINUED)

On May 4, 2009, the City of Brainerd, on behalf of BPU, entered into a project loan agreement in the amount of \$28,800,000 between the State of Minnesota, by and through the PFA and the BPU, for construction costs related to the expansion to the wastewater treatment facility. The City of Brainerd, on behalf of BPU, issued a General Obligation Build America Bond, Series 2009 (Wastewater Project), to the PFA, evidencing its obligation to repay the loan. The City has complied with all requirements of the American Reinvestment and Recovery Act (ARRA) to issue the Note as a Build America Bond (BAB) and the City has irrevocably elected to have the Note constitute a BAB and to have the direct pay tax credit provision of the ARRA apply to the Note. The interest rate on the loan is 3.233% and the loan matures August 20, 2028.

The Minnesota Legislature, effective April 1, 2007, authorized the City of Brainerd to impose a one-half percent sales and use tax to assist in funding the debt service costs for the expansion. Local option sales tax proceeds received by the City of Brainerd are remitted to BPU on a monthly basis to pay for the general obligation revenue notes.

The schedule of maturities for principal and interest is as follows:

| Year Ending December 31, | Electric Utility Revenue Bonds | | |
|-----------------------------|--------------------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 2010 | \$ 595,000 | \$ 417,438 | \$ 1,012,438 |
| 2011 | 620,000 | 393,638 | 1,013,638 |
| 2012 | 650,000 | 368,838 | 1,018,838 |
| 2013 | 675,000 | 342,838 | 1,017,838 |
| 2014 | 705,000 | 315,838 | 1,020,838 |
| 2015-2019 | 4,020,000 | 1,130,188 | 5,150,188 |
| 2020-2022 | 2,875,000 | 254,056 | 3,129,056 |
| Total | <u>\$ 10,140,000</u> | <u>\$ 3,222,834</u> | <u>\$ 13,362,834</u> |

| Year Ending December 31, | General Obligation Sewer Revenue Notes | | |
|-----------------------------|--|-------------------|---------------------|
| | Principal | Interest | Total |
| 2010 | \$ 186,000 | \$ 35,836 | \$ 221,836 |
| 2011 | 190,000 | 31,688 | 221,688 |
| 2012 | 194,000 | 27,451 | 221,451 |
| 2013 | 198,000 | 23,125 | 221,125 |
| 2014 | 203,000 | 18,710 | 221,710 |
| 2015-2017 | 636,000 | 28,589 | 664,589 |
| Total | <u>\$ 1,607,000</u> | <u>\$ 165,399</u> | <u>\$ 1,772,399</u> |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 7 LONG-TERM DEBT (CONTINUED)

| Year Ending December 31, | General Obligation Build America Bonds | | |
|-----------------------------|--|--------------|---------------|
| | Principal | Interest | Total |
| 2010 | \$ 900,000 | \$ 340,313 | \$ 1,240,313 |
| 2011 | 1,167,000 | 902,007 | 2,069,007 |
| 2012 | 1,204,000 | 864,278 | 2,068,278 |
| 2013 | 1,243,000 | 825,353 | 2,068,353 |
| 2014 | 1,284,000 | 785,166 | 2,069,166 |
| 2015-2019 | 7,068,000 | 3,275,805 | 10,343,805 |
| 2020-2024 | 8,287,000 | 2,056,867 | 10,343,867 |
| 2025-2028 | 7,647,000 | 627,881 | 8,274,881 |
| Total | * \$ 28,800,000 | \$ 9,677,670 | \$ 38,477,670 |

* This amount includes the full \$28,800,000 of debt issued to BPU, which is comprised of \$13,065,075 that has been drawn by BPU as of December 31, 2009 and \$15,734,925 which is what is left to be drawn.

Electric Utility Revenue Bonds

The resolutions authorizing the issuance of electric utility revenue bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. To comply with reserve fund deposit requirements, \$1,061,300 of the original electric utility revenue bond proceeds was deposited in a separate Debt Service Reserve Forward Delivery Agreement with Citigroup Financial Products, Inc. The interest payments are made semi-annually on June 1 and December 1, and principal payments on December 1.

General Obligation Sewer Revenue Notes and General Obligation Build America Bonds

The resolutions authorizing the issuance of General Obligation Sewer Revenue Notes and General Obligation Build America Bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. To comply with coverage test, local option sales tax proceeds received equaling 105% of following year's principal and interest payment is reported as restricted cash and investment. The amount shown as restricted cash and investments as of December 31, 2009 was \$1,945,887. The Interest payments are made semi-annually on February 20 and August 20, and principal payments on August 20.

Long-term debt activity for the year ended December 31, 2009, is as follows:

| | Electric Utility Revenue Bonds | G.O. Sewer Revenue Notes | G.O. Build America Bonds |
|-------------------|---|--------------------------------|--------------------------------|
| Beginning Balance | \$ 10,710,000 | \$ 1,789,000 | \$ - |
| Additions | - | - | 13,065,075 |
| Retirements | (570,000) | (182,000) | - |
| Ending Balance | \$ 10,140,000 | \$ 1,607,000 | \$ 13,065,075 |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 7 LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2008, is as follows:

| | Electric Utility Revenue Bonds | G.O. Sewer Revenue Notes |
|-------------------|---|--------------------------------|
| | <u> </u> | <u> </u> |
| Beginning Balance | \$ 11,140,000 | \$ - |
| Additions | - | 1,965,098 |
| Retirements | <u>(430,000)</u> | <u>(176,098)</u> |
| Ending Balance | <u>\$ 10,710,000</u> | <u>\$ 1,789,000</u> |

NOTE 8 RISK MANAGEMENT

BPU is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. BPU has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota Cities. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of insured events.

The pool can make additional assessments to make the pool self-sustaining. BPU has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

NOTE 9 DEFINED BENEFIT PENSION PLAN

Plan Description

All full-time employees of BPU are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA).

BPU contributes to the Public Employees Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERF provides retirement, disability, and death benefits to plan members and beneficiaries. Benefits are established by State Statute and vest after three years of credited service. Members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security. All new members must participate in the Coordinated Plan. PERA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy

Coordinated Plan members are required to contribute 6.00% of the annual covered salary and BPU is required to contribute at an actuarially determined rate which was 6.75% for 2009. Employer contribution rate will increase to 7.00%, effective January 1, 2010. The contribution requirements of the plan members and BPU are established and may be amended by state statute. The BPU's contributions to PERF for the years ending December 31, 2009, 2008, and 2007 were \$181,202, \$173,332 and \$160,145 respectively equal to the required contributions for each year.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In 2009, BPU implemented the requirements of a new accounting statement GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

BPU provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. BPU provides benefits for retirees as required by *Minnesota Statute* §471.61 subdivision 2b. Active employees who retire from BPU when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under BPU's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay 100% of the total premium cost. As of January 1, 2009, there were four retirees receiving health benefits from BPU's health plan.

Annual OPEB Cost and Net OPEB Obligation

BPU's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of BPU's annual OPEB cost of 2009, the amount actually contributed to the plan, and changes in BPU's net OPEB obligation:

| | |
|-------------------------------------|-------------------------|
| Annual Required Contribution (ARC): | \$ 42,765 |
| Interest on Net OPEB Obligation | - |
| Adjustment to ARC | - |
| Annual OPEB Cost | <u>42,765</u> |
| Contributions during the year | <u>20,777</u> |
| Net OPEB Obligation | 21,988 |
| Net OPEB - Beginning of the Year | - |
| Net OPEB - End of the Year | <u><u>\$ 21,988</u></u> |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

BPU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009 were as follows:

| Year Ended | Annual OPEB Cost | Employer Contribution | Percentage Contributed | Net OPEB Obligation |
|-------------------|---------------------|--------------------------|---------------------------|------------------------|
| December 31, 2009 | \$ 42,765 | \$ 20,777 | 49% | \$ 21,988 |

Funding Status

BPU currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|---|--------------------------|---------------------------|--|
| 01/01/2009 | \$ - | \$ 438,939 | \$ 438,939 | 0% | \$ 2,734,574 | 16% |

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.50% discount rate, which is based on the estimated long-term investment yield on the general assets of BPU using an underlying long-term inflation assumption of 3.00%. The annual healthcare cost trend rate is 9.00% initially, reduced incrementally to an ultimate rate of 5.00% after eight years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open thirty-year period.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 11 OPERATING TRANSFERS TO THE CITY OF BRAINERD

Commencing July 1, 2003, BPU began making regular financial contributions to the City. These contributions are made on a monthly basis based on retail sales by the BPU Electric Department. Retail sales by the Electric Department are defined as energy sales expressed in kilowatt-hours (kWh) to BPU retail electric customers. For purposes of calculating the contribution amount, energy sales to BPU retail electric customers do not include sales to any City facilities or any energy usage by BPU departments. The monthly BPU contribution is a cash contribution to the City equal to \$0.0035 per kWh (for all customers except for the industrial customer whose rate is \$0.0010 per kWh) based on energy sales to retail electric customers in the previous month.

BPU does not make any contributions to the City based on operations or sales by the BPU Water or Wastewater Departments. BPU does not make any other contributions to the City (cash or services) other than the cash contribution based on retail electric sales.

BPU bills the City for all utility services (electric, water and wastewater) at regular utility rates as set by the BPU Commission for applicable service to City Facilities. The applicable rates for service to City facilities are subject to change as may be determined necessary by the BPU Commission. The City can use funds available from any utility-specific property tax levies, cash contributions from BPU, or other available funds to pay City utility bills issued by BPU.

NOTE 12 MAJOR CUSTOMER

During the years ended December 31, 2009 and 2008, net sales to one industrial customer totaled \$2,270,249 and \$2,502,964, representing 11.5% and 11.9% of total utility revenue, respectively. A concentration of BPU's accounts receivable from this one industrial customer at December 31, 2009 and 2008, consisted of approximately 8% and 6%, respectively.

NOTE 13 COMMITMENTS

Power Contract

The BPU is obligated to purchase all of its wholesale power requirements from Minnesota Power and Light Company through December 31, 2013.

Construction Commitments

At December 31, 2009, BPU was committed under various construction contracts related to the upgrade and expansion of the wastewater treatment facility. Total contract price is approximately \$27.3 million, with approximately \$15.1 million being paid as of December 31, 2009, and the remaining commitment being approximately \$12.2 million. The project is being financed by General Obligation Build America Bonds.

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REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 SCHEDULE OF FUNDING PROGRESS OTHER POSTEMPLOYMENT BENEFIT PLAN
 YEAR ENDED DECEMBER 31, 2009**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|---|--------------------------|---------------------------|--|
| 01/01/2009 | \$ - | \$ 438,939 | \$ 438,939 | 0% | \$ 2,734,574 | 16% |

SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 COMBINING BALANCE SHEETS BY DEPARTMENT
 DECEMBER 31, 2009
 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2008)
 (UNAUDITED)**

| ASSETS | ELECTRIC | WATER | WASTEWATER TREATMENT |
|--|----------------------|---------------------|-------------------------|
| UTILITY PLANT | | | |
| Construction in Progress | \$ 99,759 | \$ - | \$ 17,149,973 |
| In Service | 28,141,771 | 15,464,017 | 14,298,689 |
| Total Investment in Utility Plant | <u>28,241,530</u> | <u>15,464,017</u> | <u>31,448,662</u> |
| Less: Accumulated Depreciation | (10,409,017) | (6,623,166) | (10,022,656) |
| Net Utility Plant | <u>17,832,513</u> | <u>8,840,851</u> | <u>21,426,006</u> |
| RESTRICTED ASSETS | | | |
| Cash and Investments | | | |
| Customer Deposits | 210,808 | - | - |
| City of Brainerd Contribution | 52,113 | - | 83,899 |
| Conservation Incentive Program | 453,193 | - | - |
| Construction Reserve | 1,757,253 | - | - |
| Debt Service Reserve | 1,269,330 | - | 1,945,887 |
| Total Restricted Cash and Investments | <u>3,742,697</u> | <u>-</u> | <u>2,029,786</u> |
| Notes Receivable | - | - | 4,890,692 |
| Total Restricted Assets | <u>3,742,697</u> | <u>-</u> | <u>6,920,478</u> |
| CURRENT ASSETS | | | |
| Cash and Investments | 7,508,444 | 295,792 | 1,304,362 |
| Accounts Receivable | 1,785,813 | 172,978 | 298,184 |
| Interest Receivable | 68,371 | - | - |
| Due from the City of Brainerd | 34,282 | 4,319 | 73,780 |
| Inventory | 757,162 | 58,184 | - |
| Prepaid Expenses | 66,387 | - | 2,394 |
| Total Current Assets | <u>10,220,459</u> | <u>531,273</u> | <u>1,678,720</u> |
| OTHER ASSETS | | | |
| Service Territory Acquisitions, Net of | | | |
| Accumulated Amortization | 45,788 | - | - |
| Deferred Charges | 142,753 | - | 34,998 |
| Total Other Assets | <u>188,541</u> | <u>-</u> | <u>34,998</u> |
| Total Assets | <u>\$ 31,984,210</u> | <u>\$ 9,372,124</u> | <u>\$ 30,060,202</u> |

TOTALS

| 2009 | 2008 |
|----------------------|----------------------|
| \$ 17,249,732 | \$ 3,428,845 |
| 57,904,477 | 53,629,207 |
| <u>75,154,209</u> | <u>57,058,052</u> |
| (27,054,839) | (24,708,161) |
| <u>48,099,370</u> | <u>32,349,891</u> |
| 210,808 | 201,755 |
| 136,012 | 139,849 |
| 453,193 | 387,801 |
| 1,757,253 | 4,478,758 |
| <u>3,215,217</u> | <u>2,198,591</u> |
| 5,772,483 | 7,406,754 |
| 4,890,692 | - |
| <u>10,663,175</u> | <u>7,406,754</u> |
| 9,108,598 | 8,905,638 |
| 2,256,975 | 2,358,620 |
| 68,371 | 66,759 |
| 112,381 | 132,977 |
| 815,346 | 887,216 |
| <u>68,781</u> | <u>61,842</u> |
| 12,430,452 | 12,413,052 |
| 45,788 | 53,631 |
| <u>177,751</u> | <u>159,130</u> |
| 223,539 | 212,761 |
| <u>\$ 71,416,536</u> | <u>\$ 52,382,458</u> |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING BALANCE SHEETS BY DEPARTMENT (CONTINUED)
DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2008)
(UNAUDITED)**

| LIABILITIES AND NET ASSETS | ELECTRIC | WATER | WASTEWATER TREATMENT |
|---|----------------------|---------------------|-------------------------|
| NET ASSETS | | | |
| Invested in Utility Plant, Net of Related Debt | \$ 11,559,907 | \$ 8,807,518 | \$ 8,666,484 |
| Restricted | 52,113 | - | 4,974,591 |
| Unrestricted | 6,712,765 | 136,994 | 1,353,833 |
| Total Net Assets | <u>18,324,785</u> | <u>8,944,512</u> | <u>14,994,908</u> |
| LONG-TERM LIABILITIES | | | |
| Electric Utility Revenue Bonds Payable | 9,545,000 | - | - |
| General Obligation Sewer Revenue Notes Payable | - | - | 1,421,000 |
| General Obligation Build America Bonds Payable | - | - | 12,165,075 |
| Compensated Absences | 335,571 | 170,591 | 114,467 |
| Other Postemployment Benefit Obligation | 12,093 | 5,783 | 4,112 |
| Capital Lease Payable | 25,000 | 25,000 | 25,000 |
| Total Long-Term Liabilities | <u>9,917,664</u> | <u>201,374</u> | <u>13,729,654</u> |
| CURRENT LIABILITIES | | | |
| Accounts Payable | 2,218,871 | 29,814 | 8,423 |
| Electric Utility Revenue Bonds Payable | 595,000 | - | - |
| General Obligation Sewer Revenue Notes Payable | - | - | 186,000 |
| General Obligation Build America Bonds Payable | - | - | 900,000 |
| Capital Lease Payable | 8,333 | 8,333 | 8,334 |
| Payable to City of Brainerd | 52,113 | 130,405 | 83,899 |
| Accrued Expenses | | | |
| Salaries and Withholding Taxes | 111,328 | 55,883 | 36,893 |
| Sales Taxes | 56,564 | 1,803 | 33 |
| Current Liabilities Payable from Restricted Assets: | | | |
| Bond Interest | 35,551 | - | 112,058 |
| Conservation Incentive Program Payable | 453,193 | - | - |
| Customer Deposits | 210,808 | - | - |
| Total Current Liabilities | <u>3,741,761</u> | <u>226,238</u> | <u>1,335,640</u> |
| Total Liabilities | <u>13,659,425</u> | <u>427,612</u> | <u>15,065,294</u> |
| Total Liabilities and Net Assets | <u>\$ 31,984,210</u> | <u>\$ 9,372,124</u> | <u>\$ 30,060,202</u> |

TOTALS

| 2009 | 2008 |
|----------------------|----------------------|
| \$ 29,033,909 | \$ 26,403,240 |
| 5,026,704 | 139,849 |
| 8,203,592 | 10,065,593 |
| <u>42,264,205</u> | <u>36,608,682</u> |
| 9,545,000 | 10,140,000 |
| 1,421,000 | 1,607,000 |
| 12,165,075 | - |
| 620,629 | 607,281 |
| 21,988 | - |
| 75,000 | 100,000 |
| <u>23,848,692</u> | <u>12,454,281</u> |
| 2,257,108 | 1,511,810 |
| 595,000 | 570,000 |
| 186,000 | 182,000 |
| 900,000 | - |
| 25,000 | 25,000 |
| 266,417 | 139,849 |
| 204,104 | 189,776 |
| 58,400 | 59,435 |
| 147,609 | 52,069 |
| 453,193 | 387,801 |
| 210,808 | 201,755 |
| <u>5,303,639</u> | <u>3,319,495</u> |
| 29,152,331 | 15,773,776 |
| <u>\$ 71,416,536</u> | <u>\$ 52,382,458</u> |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2008)
(UNAUDITED)**

| | ELECTRIC | WATER | WASTEWATER TREATMENT |
|--|-------------------|------------------|-------------------------|
| OPERATING REVENUES | | | |
| Utility Revenues | | | |
| Residential | \$ 4,002,716 | \$ 765,773 | \$ 1,142,076 |
| Commercial | 4,748,586 | 715,874 | 960,722 |
| Large Commercial | 4,266,169 | - | - |
| Industrial | 2,270,249 | - | - |
| City of Brainerd | 479,865 | 61,766 | 11,704 |
| Internal Use | 312,125 | 21,139 | 476 |
| Total Utility Revenues | <u>16,079,710</u> | <u>1,564,552</u> | <u>2,114,978</u> |
| Other Operating Revenues | | | |
| Penalties | 81,453 | 12,518 | 21,097 |
| Other | 118,969 | 30,188 | 13,209 |
| Total Other Operating Revenues | <u>200,422</u> | <u>42,706</u> | <u>34,306</u> |
| Total Operating Revenues | 16,280,132 | 1,607,258 | 2,149,284 |
| OPERATING EXPENSES | | | |
| Production and Treatment | | | |
| Salaries and Wages | - | 224,428 | 185,550 |
| Purchased Services | - | 64,101 | 238,603 |
| Supplies and Maintenance | - | 77,463 | 72,166 |
| Employee Benefits | - | 68,969 | 63,792 |
| Other Charges | - | 481 | 8,838 |
| Total Production Expenses | <u>-</u> | <u>435,442</u> | <u>568,949</u> |
| Purchased Power | 11,752,885 | - | - |
| Distribution and Collection | | | |
| Salaries and Wages | 692,697 | 216,810 | 90,884 |
| Purchased Services | 278,147 | 83,914 | 105,189 |
| Supplies and Maintenance | 112,011 | 53,038 | 12,980 |
| Employee Benefits | 287,325 | 84,648 | 31,318 |
| Other Charges | 5,796 | 9,468 | 55 |
| Total Distribution and Collection Expenses | <u>1,375,976</u> | <u>447,878</u> | <u>240,426</u> |

TOTALS

| 2009 | 2008 |
|-------------------|-------------------|
| \$ 5,910,565 | \$ 5,877,364 |
| 6,425,182 | 6,911,927 |
| 4,266,169 | 4,658,227 |
| 2,270,249 | 2,502,964 |
| 553,335 | 711,864 |
| 333,740 | 315,659 |
| <u>19,759,240</u> | <u>20,978,005</u> |
| 115,068 | 118,233 |
| 162,366 | 219,218 |
| <u>277,434</u> | <u>337,451</u> |
| 20,036,674 | 21,315,456 |
| 409,978 | 439,678 |
| 302,704 | 291,735 |
| 149,629 | 130,633 |
| 132,761 | 153,091 |
| 9,319 | 8,750 |
| <u>1,004,391</u> | <u>1,023,887</u> |
| 11,752,885 | 11,588,494 |
| 1,000,391 | 963,514 |
| 467,250 | 357,696 |
| 178,029 | 186,212 |
| 403,291 | 436,351 |
| 15,319 | 16,032 |
| <u>2,064,280</u> | <u>1,959,805</u> |

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2009
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2008)
 (UNAUDITED)**

| | <u>ELECTRIC</u> | <u>WATER</u> | <u>WASTEWATER TREATMENT</u> |
|---|-------------------|--------------------|---------------------------------|
| OPERATING EXPENSES (CONTINUED) | | | |
| Administration | | | |
| Salaries and Wages | \$ 569,750 | \$ 228,365 | \$ 249,387 |
| Purchased Services | 197,621 | 45,409 | 35,943 |
| Supplies and Maintenance | 45,302 | 12,501 | 10,215 |
| Insurance and Bonds | 70,303 | 46,866 | 39,064 |
| Employee Benefits | 192,900 | 78,115 | 69,992 |
| Other Charges | 95,179 | 14,024 | 20,374 |
| Total Administration Expenses | <u>1,171,055</u> | <u>425,280</u> | <u>424,975</u> |
| Depreciation and Amortization | <u>1,106,696</u> | <u>470,238</u> | <u>1,057,292</u> |
| Total Operating Expenses | <u>15,406,612</u> | <u>1,778,838</u> | <u>2,291,642</u> |
| OPERATING INCOME (LOSS) | 873,520 | (171,580) | (142,358) |
| NONOPERATING REVENUE | | | |
| Interest Income - Investments | 245,750 | 245 | 40,485 |
| Interest Income - Notes Receivable | - | - | 19,141 |
| Interest Expense | (438,296) | - | (137,376) |
| Local Option Sales Tax | - | - | 854,427 |
| Federal Grant Revenue - Build America Bond | - | - | 23,091 |
| Loss on Disposal of Capital Assets | - | - | (700) |
| Total Nonoperating Revenue | <u>(192,546)</u> | <u>245</u> | <u>799,068</u> |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS | 680,974 | (171,335) | 656,710 |
| CAPITAL CONTRIBUTIONS | - | 115,579 | 5,010,058 |
| TRANSFERS TO THE CITY | <u>(636,463)</u> | <u>-</u> | <u>-</u> |
| CHANGE IN NET ASSETS | <u>\$ 44,511</u> | <u>\$ (55,756)</u> | <u>\$ 5,666,768</u> |

TOTALS

| 2009 | 2008 |
|---------------------|---------------------|
| \$ 1,047,502 | \$ 1,080,730 |
| 278,973 | 244,749 |
| 68,018 | 73,317 |
| 156,233 | 164,005 |
| 341,007 | 429,890 |
| 129,577 | 180,283 |
| <u>2,021,310</u> | <u>2,172,974</u> |
| <u>2,634,226</u> | <u>2,178,763</u> |
| <u>19,477,092</u> | <u>18,923,923</u> |
| 559,582 | 2,391,533 |
| 286,480 | 281,133 |
| 19,141 | - |
| (575,672) | (37,493) |
| 854,427 | 804,924 |
| 23,091 | - |
| <u>(700)</u> | <u>(257,523)</u> |
| <u>606,767</u> | <u>791,041</u> |
| 1,166,349 | 3,182,574 |
| 5,125,637 | 729,138 |
| <u>(636,463)</u> | <u>(664,528)</u> |
| <u>\$ 5,655,523</u> | <u>\$ 3,247,184</u> |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ELECTRIC DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2000 THROUGH 2009
(UNAUDITED)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|-----------|-----------|------------|-----------|-----------|-----------|
| Electric Plant | | | | | | |
| In Service (Thousands) | \$ 13,591 | \$ 14,324 | \$ 15,870 | \$ 16,622 | \$ 16,890 | \$ 18,371 |
| Investment Per Meter | \$ 1,940 | \$ 2,034 | \$ 2,224 | \$ 2,311 | \$ 2,278 | \$ 2,412 |
| Investment Per Dollar of Electric Revenue | \$ 1.44 | \$ 1.42 | \$ 1.58 | \$ 1.38 | \$ 1.37 | \$ 1.30 |
| Accumulated Depreciation (Thousands) | \$ 6,862 | \$ 7,481 | \$ 8,056 | \$ 8,576 | \$ 8,207 | \$ 8,818 |
| Percent of Plant | 50.5% | 52.2% | 50.8% | 51.6% | 48.6% | 48.0% |
| Annual Depreciation (Thousands) | \$ 649 | \$ 635 | \$ 723 | \$ 717 | \$ 768 | \$ 825 |
| Percent of Annual Depreciation to Average Plant in Service | 4.9% | 4.6% | 4.8% | 4.4% | 4.6% | 4.7% |
| Number of Meters (Year-End) | 7,005 | 7,041 | 7,135 | 7,192 | 7,415 | 7,616 |
| Cost of Power | | | | | | |
| KWH Purchased (Thousands) | 180,670 | 185,856 | 188,124 | 222,238 | 197,290 | 247,648 |
| Total Cost (Thousands) | \$ 6,622 | \$ 7,068 | \$ 6,849 | \$ 8,161 | \$ 7,991 | \$ 9,476 |
| Cost Per KWH Purchased (Cents) | 3.67 | 3.80 | 3.64 | 3.67 | 4.05 | 3.82 |
| Percent of System Loss | 8.3% | 8.0% | 7.5% | 6.1% | 5.6% | 5.2% |
| Average Load Factor for Year | 67.1% | 68.1% | 68.5% | 69.7% | 67.5% | 72.3% |
| Electric Revenue | | | | | | |
| KWH Sold (Thousands) | 167,522 | 171,004 | 174,095 | 208,609 | 186,328 | 234,765 |
| Electric Revenue (Thousands) | \$ 9,428 | \$ 10,052 | \$ 10,051 | \$ 12,075 | \$ 12,297 | \$ 14,101 |
| Per KWH Sold (Cents) | 5.63 | 5.88 | 5.77 | 5.79 | 6.60 | 6.01 |
| Operating Income (Thousands) | \$ 1,151 | \$ 886 | \$ 720 | \$ 1,419 | \$ 1,566 | \$ 2,029 |
| Change in Net Assets (Thousands) | \$ 908 | \$ 634 | \$ (1,066) | \$ (557) | \$ 1,019 | \$ 1,423 |

Note: For statistical purposes, the utility general plant is allocated among the electric, water and wastewater treatment department plant.

| 2006 | 2007 | 2008 | 2009 |
|-----------|-----------|-----------|-----------|
| \$ 19,402 | \$ 20,851 | \$ 25,166 | \$ 28,142 |
| \$ 2,512 | \$ 2,698 | \$ 3,228 | \$ 3,607 |
| \$ 1.29 | \$ 1.22 | \$ 1.45 | \$ 1.75 |
| \$ 9,582 | \$ 10,241 | \$ 9,404 | \$ 10,409 |
| 49.4% | 49.1% | 37.4% | 37.0% |
| \$ 820 | \$ 851 | \$ 884 | \$ 1,086 |
| 4.3% | 4.2% | 3.8% | 4.1% |
| 7,723 | 7,728 | 7,796 | 7,801 |
| 259,671 | 262,543 | 256,066 | 230,564 |
| \$ 10,272 | \$ 12,112 | \$ 11,588 | \$ 11,753 |
| 3.96 | 4.61 | 4.53 | 5.10 |
| 4.7% | 4.8% | 5.6% | 4.2% |
| 73.0% | 71.4% | 72.0% | 70.2% |
| 247,585 | 249,974 | 241,640 | 221,000 |
| \$ 15,051 | \$ 17,149 | \$ 17,307 | \$ 16,079 |
| 6.08 | 6.86 | 7.16 | 7.28 |
| \$ 1,643 | \$ 1,989 | \$ 2,417 | \$ 874 |
| \$ 1,129 | \$ 1,579 | \$ 1,703 | \$ 45 |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WATER DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2000 THROUGH 2009
(UNAUDITED)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|----------|----------|----------|----------|----------|-----------|
| Water Plant | | | | | | |
| In Service (Thousands) | \$ 7,094 | \$ 7,248 | \$ 7,777 | \$ 7,730 | \$ 9,097 | \$ 12,070 |
| Investment Per Meter | \$ 1,664 | \$ 1,690 | \$ 1,784 | \$ 1,764 | \$ 2,017 | \$ 2,614 |
| Investment Per Dollar of Water Revenue | \$ 6.88 | \$ 6.87 | \$ 7.03 | \$ 6.41 | \$ 7.27 | \$ 8.59 |
| Accumulated Depreciation (Thousands) | \$ 3,972 | \$ 4,260 | \$ 4,507 | \$ 4,519 | \$ 4,546 | \$ 5,078 |
| Percent of Plant | 56.0% | 58.8% | 58.0% | 58.5% | 50.0% | 45.8% |
| Annual Depreciation (Thousands) | \$ 305 | \$ 309 | \$ 369 | \$ 374 | \$ 399 | \$ 510 |
| Percent of Annual Depreciation to Average Plant in Service | 4.3% | 4.3% | 4.9% | 4.8% | 4.7% | 4.6% |
| Number of Meters (Year-End) | 4,263 | 4,289 | 4,360 | 4,382 | 4,511 | 4,617 |
| Cost of Water Production | | | | | | |
| Gallons Pumped (Thousands) | 721,014 | 744,078 | 698,015 | 713,447 | 687,083 | 685,547 |
| Total Cost (Thousands) | \$ 251 | \$ 214 | \$ 207 | \$ 233 | \$ 291 | \$ 314 |
| Cost Per Thousand Gallons Pumped | \$ 0.35 | \$ 0.29 | \$ 0.30 | \$ 0.33 | \$ 0.42 | \$ 0.46 |
| Percent of System Loss | 26.6% | 25.0% | 18.0% | 18.4% | 15.4% | 13.7% |
| Water Revenue | | | | | | |
| Gallons Sold (Thousands) | 528,979 | 558,240 | 572,515 | 582,241 | 581,263 | 591,740 |
| Water Revenue (Thousands) | \$ 1,031 | \$ 1,055 | \$ 1,106 | \$ 1,206 | \$ 1,251 | \$ 1,405 |
| Per Thousand Gallons Sold | \$ 1.95 | \$ 1.89 | \$ 1.93 | \$ 2.07 | \$ 2.15 | \$ 2.37 |
| Operating Income (Loss) (Thousands) | \$ (150) | \$ 54 | \$ (6) | \$ (17) | \$ (80) | \$ (66) |
| Change in Net Assets (Thousands) Before Capital Contributions from City | \$ (134) | \$ 64 | \$ (8) | \$ (17) | \$ (93) | \$ (57) |

Note: For statistical purposes, the utility general plant is allocated among the electric, water and wastewater treatment department plant.

| 2006 | 2007 | 2008 | 2009 |
|-----------|-----------|-----------|-----------|
| \$ 12,689 | \$ 13,817 | \$ 14,963 | \$ 15,464 |
| \$ 2,712 | \$ 2,962 | \$ 3,244 | \$ 3,355 |
| \$ 7.94 | \$ 7.65 | \$ 9.69 | \$ 6.88 |
| \$ 5,539 | \$ 5,950 | \$ 6,229 | \$ 6,623 |
| 43.7% | 43.1% | 41.6% | 42.8% |
| \$ 509 | \$ 465 | \$ 471 | \$ 470 |
| 4.1% | 3.5% | 3.3% | 3.1% |
| 4,679 | 4,664 | 4,613 | 4,609 |
| 817,520 | 750,756 | 540,542 | 568,687 |
| \$ 419 | \$ 419 | \$ 432 | \$ 434 |
| \$ 0.51 | \$ 0.55 | \$ 0.80 | \$ 0.76 |
| 11.2% | 9.7% | 10.5% | 20.9% |
| 726,260 | 678,254 | 483,738 | 449,823 |
| \$ 1,598 | \$ 1,806 | \$ 1,609 | \$ 1,565 |
| \$ 2.20 | \$ 2.66 | \$ 3.33 | \$ 3.48 |
| \$ (18) | \$ 168 | \$ (120) | \$ (172) |
| \$ (15) | \$ 186 | \$ (112) | \$ (171) |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WASTEWATER TREATMENT DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2000 THROUGH 2009
(UNAUDITED)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Wastewater Treatment Plant | | | | | | |
| In Service (Thousands) | \$ 12,764 | \$ 12,843 | \$ 12,935 | \$ 12,932 | \$ 12,868 | \$ 13,042 |
| Investment Per Meter | \$ 3,053 | \$ 3,052 | \$ 3,023 | \$ 2,962 | \$ 2,888 | \$ 2,850 |
| Investment Per Dollar of Wastewater Treatment Revenue | \$ 14.87 | \$ 15.18 | \$ 13.92 | \$ 12.84 | \$ 12.44 | \$ 11.24 |
| Accumulated Depreciation (Thousands) | \$ 5,928 | \$ 6,311 | \$ 6,513 | \$ 6,764 | \$ 6,724 | \$ 7,061 |
| Percent of Plant | 46.4% | 49.1% | 50.4% | 52.3% | 52.3% | 54.1% |
| Annual Depreciation (Thousands) | \$ 374 | \$ 386 | \$ 340 | \$ 353 | \$ 368 | \$ 393 |
| Percent of Annual Depreciation to Average Plant in Service | 3.0% | 3.0% | 2.6% | 2.7% | 2.8% | 3.0% |
| Number of Meters (Year-End) | 4,181 | 4,208 | 4,279 | 4,366 | 4,456 | 4,576 |
| Cost of Wastewater Treatment | | | | | | |
| Flow in Gallons Processed (Thousands) | 842,238 | 957,492 | 947,957 | 958,428 | 830,959 | 887,076 |
| Total Production Cost (Thousands) | \$ 236 | \$ 260 | \$ 295 | \$ 334 | \$ 435 | \$ 405 |
| Cost Per Thousand Gallons Processed | \$ 0.28 | \$ 0.27 | \$ 0.31 | \$ 0.35 | \$ 0.52 | \$ 0.46 |
| Percent of System Loss | 29.6% | 36.3% | 32.0% | 29.0% | 26.3% | 29.8% |
| Wastewater Treatment Revenue | | | | | | |
| Flow in Gallons Sold (Thousands) | 592,780 | 610,245 | 644,880 | 680,271 | 612,370 | 622,729 |
| Wastewater Treatment Revenue (Thousands) | \$ 858 | \$ 846 | \$ 929 | \$ 1,007 | \$ 1,034 | \$ 1,160 |
| Per Thousand Gallons Sold | \$ 1.45 | \$ 1.39 | \$ 1.44 | \$ 1.48 | \$ 1.69 | \$ 1.86 |
| Operating Income (Loss) (Thousands) | \$ (174) | \$ (141) | \$ (54) | \$ (35) | \$ (255) | \$ (126) |
| Change in Net Assets (Thousands) | \$ (78) | \$ (31) | \$ 31 | \$ 8 | \$ (218) | \$ (79) |

Note: For statistical purposes, the utility general plant is allocated among the electric, water and wastewater treatment department plant.

| 2006 | 2007 | 2008 | 2009 |
|-----------|-----------|-----------|-----------|
| \$ 13,179 | \$ 13,223 | \$ 13,501 | \$ 14,299 |
| \$ 2,851 | \$ 2,867 | \$ 2,958 | \$ 3,134 |
| \$ 9.05 | \$ 7.90 | \$ 6.44 | \$ 6.65 |
| \$ 7,801 | \$ 8,559 | \$ 9,076 | \$ 10,023 |
| 59.2% | 64.7% | 67.2% | 70.1% |
| \$ 739 | \$ 770 | \$ 763 | \$ 1,056 |
| 5.6% | 5.8% | 5.7% | 7.6% |
| 4,622 | 4,612 | 4,564 | 4,562 |
| 858,830 | 751,025 | 762,208 | 765,652 |
| \$ 402 | \$ 505 | \$ 506 | \$ 567 |
| \$ 0.47 | \$ 0.67 | \$ 0.66 | \$ 0.74 |
| 24.9% | 17.2% | 15.7% | 16.1% |
| 644,675 | 621,604 | 642,762 | 642,413 |
| \$ 1,457 | \$ 1,673 | \$ 2,098 | \$ 2,149 |
| \$ 2.26 | \$ 2.69 | \$ 3.26 | \$ 3.35 |
| \$ (247) | \$ (271) | \$ 95 | \$ (142) |
| \$ (183) | \$ 300 | \$ 927 | \$ 776 |

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF UTILITY PLANT AND ACCUMULATED DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2009
(UNAUDITED)**

| | Cost | | | |
|--|---------------|---------------|--------------|---------------|
| | 12/31/2008 | Additions | Deductions | 12/31/2009 |
| Electric Department | | | | |
| <u>Distribution</u> | | | | |
| Land and Land Improvements | \$ 169,200 | \$ - | \$ - | \$ 169,200 |
| Distribution System | 19,703,753 | 2,894,208 | - | 22,597,961 |
| Street and Security Lighting System | 413,826 | 144,840 | - | 558,666 |
| Machinery and Equipment | 729,620 | 1,491 | 53,296 | 677,815 |
| Transportation Equipment | 1,084,851 | - | - | 1,084,851 |
| Total Electric Department | 22,101,250 | 3,040,539 | 53,296 | 25,088,493 |
| Water Department | | | | |
| <u>Production</u> | | | | |
| Structures and Improvements | 1,701,352 | - | 6,439 | 1,694,913 |
| Wells, Pumps and Accessories | 392,349 | 12,800 | 10,425 | 394,724 |
| Water Treatment Plant Equipment | 1,190,326 | 132,166 | 10,544 | 1,311,948 |
| Total Production | 3,284,027 | 144,966 | 27,408 | 3,401,585 |
| <u>Distribution</u> | | | | |
| Distribution System | 9,963,714 | 427,191 | - | 10,390,905 |
| Machinery and Equipment | 321,851 | - | 43,674 | 278,177 |
| Transportation Equipment | 228,317 | - | - | 228,317 |
| Total Water Distribution | 10,513,882 | 427,191 | 43,674 | 10,897,399 |
| Total Water Department | 13,797,909 | 572,157 | 71,082 | 14,298,984 |
| Wastewater Treatment Department | | | | |
| Land and Land Improvements | 35,485 | - | - | 35,485 |
| Collection System | 3,648,677 | 89,051 | 16,523 | 3,721,205 |
| Treatment Facility | 8,465,346 | 85,500 | 47,896 | 8,502,950 |
| Machinery and Equipment | 378,693 | 3,194 | 32,233 | 349,654 |
| Transportation Equipment | 128,537 | - | - | 128,537 |
| Total Wastewater Treatment Department | 12,656,738 | 177,745 | 96,652 | 12,737,831 |
| General Plant | | | | |
| Land and Land Improvements | 883,953 | 724,141 | 6,248 | 1,601,846 |
| Service Center | 3,567,211 | - | 8,821 | 3,558,390 |
| Furniture and Fixtures | 440,019 | 26,903 | 30,116 | 436,806 |
| Transportation Equipment | 114,623 | - | - | 114,623 |
| Storage Building | 67,504 | - | - | 67,504 |
| Total General Plant | 5,073,310 | 751,044 | 45,185 | 5,779,169 |
| Total Utility Plant in Service | 53,629,207 | 4,541,485 | 266,215 | 57,904,477 |
| Construction Work in Progress | 3,428,845 | 16,300,082 | 2,479,195 | 17,249,732 |
| Total Investment in Utility Plant | \$ 57,058,052 | \$ 20,841,567 | \$ 2,745,410 | \$ 75,154,209 |

| Composite Depreciation Rates | Accumulated Depreciation | | | | Percent of Plant Balance |
|------------------------------------|--------------------------|---------------------|-------------------|----------------------|--------------------------------|
| | 12/31/2008 | Additions | Deductions | 12/31/2009 | |
| 0.0% | \$ - | \$ - | \$ - | \$ - | 0.0% |
| 3.6% | 6,709,329 | 811,691 | - | 7,521,020 | 33.3% |
| 4.3% | 125,885 | 24,052 | - | 149,937 | 26.8% |
| 7.3% | 438,798 | 49,367 | 53,296 | 434,869 | 64.2% |
| 4.9% | 742,012 | 53,382 | - | 795,394 | 73.3% |
| 3.7% | <u>8,016,024</u> | <u>938,492</u> | <u>53,296</u> | <u>8,901,220</u> | 35.5% |
| 1.8% | 1,432,976 | 30,370 | 6,439 | 1,456,907 | 86.0% |
| 2.4% | 321,042 | 9,561 | 10,426 | 320,177 | 81.1% |
| 4.1% | 429,677 | 54,426 | 10,544 | 473,559 | 36.1% |
| 2.8% | <u>2,183,695</u> | <u>94,357</u> | <u>27,409</u> | <u>2,250,643</u> | 66.2% |
| 2.9% | 3,112,731 | 299,160 | - | 3,411,891 | 32.8% |
| 5.4% | 204,902 | 15,108 | 43,674 | 176,336 | 63.4% |
| 4.9% | 199,163 | 11,268 | - | 210,431 | 92.2% |
| 3.0% | <u>3,516,796</u> | <u>325,536</u> | <u>43,674</u> | <u>3,798,658</u> | 34.9% |
| 2.9% | 5,700,491 | 419,893 | 71,083 | 6,049,301 | 42.3% |
| - | - | - | - | - | 0.0% |
| 2.7% | 2,152,609 | 99,160 | 16,523 | 2,235,246 | 60.1% |
| 10.6% | 6,429,737 | 902,153 | 47,896 | 7,283,994 | 85.7% |
| 7.2% | 180,628 | 25,336 | 31,532 | 174,432 | 49.9% |
| 7.8% | <u>107,770</u> | <u>10,043</u> | <u>-</u> | <u>117,813</u> | 91.7% |
| 8.1% | 8,870,744 | 1,036,692 | 95,951 | 9,811,485 | 77.0% |
| 1.5% | 289,110 | 23,984 | 6,248 | 306,846 | 19.2% |
| 3.7% | 1,388,538 | 131,182 | 8,821 | 1,510,899 | 42.5% |
| 10.7% | 306,337 | 46,841 | 30,116 | 323,062 | 74.0% |
| 10.3% | 98,750 | 11,818 | - | 110,568 | 96.5% |
| 4.9% | 38,167 | 3,291 | - | 41,458 | 61.4% |
| 3.8% | <u>2,120,902</u> | <u>217,116</u> | <u>45,185</u> | <u>2,292,833</u> | 39.7% |
| 4.5% | 24,708,161 | 2,612,193 | 265,515 | 27,054,839 | 46.7% |
| - | - | - | - | - | - |
| 3.5% | <u>\$ 24,708,161</u> | <u>\$ 2,612,193</u> | <u>\$ 265,515</u> | <u>\$ 27,054,839</u> | 36.0% |

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OTHER REPORTS SECTION

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

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

We have audited the financial statements of the Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2009 and have issued our report thereon dated June 1, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BPU's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BPU's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BPU's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the BPU Commission and the City of Brainerd and is not intended to be and should not be used by anyone other than these specified parties.



LarsonAllen LLP

Brainerd, Minnesota
June 1, 2010

REPORT ON MINNESOTA LEGAL COMPLIANCE

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

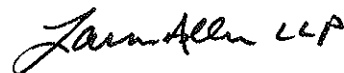
We have audited the basic financial statements of Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2009, and have issued our report thereon dated June 1, 2010.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provision of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to *Minnesota Statutes Sec. 6.65*. Accordingly, the audit included such tests of the accounting records and such other accounting procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, local government miscellaneous provisions and tax increment districts. Our study included all of the listed categories, except that we did not test for compliance in tax increment districts. The Commission did not have any tax increment districts any time during 2009.

The results of our test indicate that, for the items tested, BPU complied with the material terms and conditions of the applicable legal provisions referred to in the preceding paragraph.

This report is intended solely for the information and use of management, the BPU Commission and the Office of the Minnesota State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



LarsonAllen LLP

Brainerd, Minnesota
June 1, 2010

**BRAINERD PUBLIC UTILITIES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2009**

SIGNIFICANT DEFICIENCY

2009-1 CONTROLS OVER INVENTORY ACTIVITY

Criteria: As part of sound financial controls over inventory activity, staff should fully reconcile inventory records to physical inventory on a monthly basis.

Condition: Although staff has a process to periodically reconcile purchases and uses of inventory relating to various projects, this is not always completed on a regular basis and there is difficulty assigning items used to specific projects.

Cause: Past practice and policy has not required an accurate and complete reconciliation.

Effect: Absence of a process to complete an accurate reconciliation of inventory fully each month diminishes the ability of BPU's management to prevent or detect fraud or misappropriation of assets in a timely manner and to provide timely and accurate reporting of financial information.

Recommendation: We recommend that BPU establish a process to fully reconcile its inventory records with the general ledger inventory activity each month or consider implementation of a perpetual inventory system.

MINNESOTA LEGAL COMPLIANCE

None noted.