

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
FINANCIAL REPORT
DECEMBER 31, 2010 AND 2009**

**BRAINERD PUBLIC UTILITIES
TABLE OF CONTENTS
DECEMBER 31, 2010 AND 2009**

INTRODUCTORY SECTION

Organizational Data 1

FINANCIAL SECTION

Independent Auditors' Report 2
Management's Discussion and Analysis 4
Balance Sheets 13
Statements of Revenues, Expenses and Changes in Net Assets 15
Statements of Cash Flows 17
Notes to Financial Statements 19

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress Other Postemployment Benefit Plan 36

SUPPLEMENTARY INFORMATION

Combining Balance Sheets by Department 37
Combining Statements of Revenues, Expenses and Changes
in Net Assets by Department 41
Electric Department Statistics 45
Water Department Statistics 47
Wastewater Treatment Department Statistics 49
Schedule of Utility Plant and Accumulated Depreciation 51

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* 53
Report on Minnesota Legal Compliance 55
Schedule of Findings and Recommendations 56

INTRODUCTORY SECTION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ORGANIZATIONAL DATA
DECEMBER 31, 2010**

COMMISSION

		<u>Term Expires December 31,</u>
President	Don Samuelson	2013
Vice President	William Wroolie	2011
Commission Member	Mark O'Day	2015
Commission Member	Don Sievek	2014
Commission Member	Don Stang	2012

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, 2010 and 2009, 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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2011 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.



(2)

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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 required parts 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 inquires 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.

Larson Allen LLP
LarsonAllen LLP

Brainerd, Minnesota
April 25, 2011

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2010 AND 2009**

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, 2010 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 2010, 2009 and 2008 were \$86,589,382, \$71,416,536 and \$52,382,458, respectively. Total assets exceeded liabilities at the end of 2010, 2009 and 2008 by \$46,524,568, \$42,264,205 and \$36,608,682, respectively.
- Total assets at December 31, 2010 increased \$15,172,846 over the prior year primarily due to ongoing construction of new wastewater treatment facility.
- Total net assets increased at the end of 2010, 2009 and 2008 by \$4,260,363, \$5,655,523 and \$3,247,184, respectively.
- The increases in capital assets for the past three years and the events causing those increases are noted below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Additions and Transfers to Capital Assets Being Depreciated (By Department)			
Electric	\$ 1,775,540	\$ 3,040,539	\$ 6,441,500
Water	520,975	456,578	592,683
Water - Capital Contributions from City	35,175	115,579	729,138
Wastewater Treatment	18,284,011	177,745	49,844
General Plant	-	751,044	536,280
	<u>20,615,701</u>	<u>4,541,485</u>	<u>8,349,445</u>
Additions to Construction in Progress	11,220,999	16,300,082	4,799,455
Transfers from Construction in Progress to Capital Assets Being Depreciated	(18,343,546)	(2,479,195)	(6,341,346)
Deletions and Transfers	(193,163)	(700)	(452,047)
Normal Annual Depreciation	<u>(2,611,968)</u>	<u>(2,612,193)</u>	<u>(2,117,477)</u>
Total	<u>\$ 10,688,023</u>	<u>\$ 15,749,479</u>	<u>\$ 4,238,030</u>

- Total long-term liabilities for 2010 increased \$11,076,913 over prior year primarily as a result of issuance of \$12,901,713 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, 2010 AND 2009**

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 non-cash 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 2010, 2009 and 2008 by \$46,524,568, \$42,264,205 and \$36,608,682, respectively.

The largest portion of BPU's net assets (56%), at December 31, 2010, 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, 2010 AND 2009**

Financial Analysis (Continued)

Condensed Balance Sheets

	December 31,			Change	
	2010	2009	2008	2010 to 2009	2009 to 2008
Net Capital Assets	\$ 58,787,393	\$ 48,099,370	\$ 32,349,891	\$ 10,688,023	\$ 15,749,479
Restricted Assets	13,657,895	10,663,175	7,406,754	2,994,720	3,256,421
Current Assets	13,942,489	12,430,452	12,413,052	1,512,037	17,400
Other Assets	201,605	223,539	212,761	(21,934)	10,778
Total Assets	\$ 86,589,382	\$ 71,416,536	\$ 52,382,458	\$ 15,172,846	\$ 19,034,078
Current Liabilities	\$ 5,139,209	\$ 5,303,639	\$ 3,319,495	\$ (164,430)	\$ 1,984,144
Long-Term Liabilities	34,925,605	23,848,692	12,454,281	11,076,913	11,394,411
Total Liabilities	40,064,814	29,152,331	15,773,776	10,912,483	13,378,555
Invested in Utility Plant, Net of Related Debt	25,854,181	29,033,909	26,403,240	(3,179,728)	2,630,669
Restricted Net Assets	9,419,280	5,026,704	139,849	4,392,576	4,886,855
Unrestricted Net Assets	11,251,107	8,203,592	10,065,593	3,047,515	(1,862,001)
Total Net Assets	46,524,568	42,264,205	36,608,682	4,260,363	5,655,523
Total Liabilities and Net Assets	\$ 86,589,382	\$ 71,416,536	\$ 52,382,458	\$ 15,172,846	\$ 19,034,078

For 2010, \$9,419,280 (20%) of BPU's net assets represents resources that are restricted. The remaining balance of unrestricted net assets of \$11,251,107 (24%) may be used to meet BPU ongoing obligations.

Statement of Revenues, Expenses and Changes in Net Assets

2010

Total operating revenues for 2010 increased \$704,820 (3.5%) from prior year. Electric Department increased \$467,294 primarily due to increase in overall kWh sales of approximately 4.4%, Water Department increased \$162,283 primarily due to increase of \$103,852 in commercial sales, and Wastewater Treatment Department increased \$75,243 primarily due to increase of \$71,190 in residential sales. Total operating expenses for 2010 increased \$1,218,488 (6.3%) from prior year. Of this amount, \$1,119,807 was due to higher purchased power costs.

Net nonoperating revenue for 2010 increased \$25,980 from prior year. Of this amount, interest income from investments increased approximately \$92,700, interest income on notes receivable with City of Baxter related to the expansion of the wastewater treatment facility increased approximately \$251,300, interest expense on debt service increased approximately \$266,300, local option sales tax proceeds decreased approximately \$38,800, federal grant revenue increased approximately \$142,700, and approximately \$156,200 of losses in disposal of main electric substation capital assets was recorded due to installation of three new 47 MW transformers in the Electric Department.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2010 AND 2009**

Financial Analysis (Continued)

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

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.

Net 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 \$119,366 of principal and \$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.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2010 AND 2009**

Financial Analysis (Continued)

Condensed Revenues, Expenses and Changes in Net Assets

	For the Year Ended December 31,			Change	
	2010	2009	2008	2010 to 2009	2009 to 2008
OPERATING REVENUES					
Electric	\$16,747,426	\$ 16,280,132	\$ 17,575,008	\$ 467,294	\$ (1,294,876)
Water	1,769,541	1,607,258	1,642,448	162,283	(35,190)
Wastewater Treatment	2,224,527	2,149,284	2,098,000	75,243	51,284
Total Operating Revenue	20,741,494	20,036,674	21,315,456	704,820	(1,278,782)
OPERATING EXPENSES					
Production and Treatment	1,047,720	1,004,391	1,023,887	43,329	(19,496)
Purchased Power	12,872,692	11,752,885	11,588,494	1,119,807	164,391
Distribution and Collection	2,059,258	2,064,280	1,959,805	(5,022)	104,475
Administration	2,080,984	2,021,310	2,172,974	59,674	(151,664)
Depreciation and Amortization	2,634,926	2,634,226	2,178,763	700	455,463
Total Operating Expenses	20,695,580	19,477,092	18,923,923	1,218,488	553,169
OPERATING INCOME	45,914	559,582	2,391,533	(513,668)	(1,831,951)
NONOPERATING REVENUE (EXPENSE)					
Interest Income - Investments	379,133	286,480	281,133	92,653	5,347
Interest Income - Notes Receivable	270,465	19,141	-	251,324	19,141
Interest Expense	(841,978)	(575,672)	(37,493)	(266,306)	(538,179)
Local Option Sales Tax	815,593	854,427	804,924	(38,834)	49,503
Federal Grant Revenue -					
Build America Bond	155,171	23,091	-	132,080	23,091
Other Grants	10,576	-	-	10,576	-
Gain (Loss) on Disposal of Capital Assets	(156,213)	(700)	(257,523)	(155,513)	256,823
Net Nonoperating Revenue	632,747	606,767	791,041	25,980	(184,274)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	678,661	1,166,349	3,182,574	(487,688)	(2,016,225)
CAPITAL CONTRIBUTIONS	4,335,748	5,125,637	729,138	(789,889)	4,396,499
TRANSFERS TO THE CITY	(754,046)	(636,463)	(664,528)	(117,583)	28,065
CHANGE IN NET ASSETS	4,260,363	5,655,523	3,247,184	(1,395,160)	2,408,339
Net Assets - Beginning	42,264,205	36,608,682	33,361,498	5,655,523	3,247,184
NET ASSETS - ENDING	<u>\$46,524,568</u>	<u>\$ 42,264,205</u>	<u>\$ 36,608,682</u>	<u>\$ 4,260,363</u>	<u>\$ 5,655,523</u>

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2010 AND 2009**

Capital Assets

Capital Assets – BPU's capital assets, as of December 31, 2010, 2009 and 2008, amounted to \$58,787,393, \$48,099,370 and \$32,349,891, respectively (net of accumulated depreciation). The following table summarizes capital assets, net of depreciation.

Condensed Schedule of Capital Assets

	December 31,			Change	
	2010	2009	2008	2010 to 2009	2009 to 2008
Electric Department					
Distribution System	\$ 15,625,548	\$ 15,076,941	\$ 12,994,424	\$ 548,607	\$ 2,082,517
Street and Security Lighting System	403,757	408,729	287,941	(4,972)	120,788
Water Department					
Production Facilities	1,194,153	1,150,942	1,100,332	43,211	50,610
Distribution System	7,073,500	6,979,014	6,850,983	94,486	128,031
Wastewater Treatment Department					
Lift Station Facilities	1,440,407	1,485,959	1,496,068	(45,552)	(10,109)
Treatment Facilities	18,621,430	1,218,956	2,035,609	17,402,474	(816,653)
Land and Land Improvements	1,469,126	1,499,685	799,528	(30,559)	700,157
Machinery and Equipment	454,544	520,009	605,836	(65,465)	(85,827)
Furniture and Fixtures	69,294	113,744	133,682	(44,450)	(19,938)
Transportation Equipment	369,384	322,122	408,633	47,262	(86,511)
Service Center	1,939,065	2,073,537	2,208,010	(134,472)	(134,473)
Construction in Progress	10,127,185	17,249,732	3,428,845	(7,122,547)	13,820,887
Total	\$ 58,787,393	\$ 48,099,370	\$ 32,349,891	\$ 10,688,023	\$ 15,749,479

Major capital asset transactions for 2010 and 2009 include the following:

	2010	2009
<u>Electric</u>		
Distribution Transformers and Metering Purchased	\$ 512,100	\$ 388,100
Acquisition of Transformers and Meters	-	1,337,100
Expansion of Distribution Feeder System	810,300	688,400
Distribution System Improvements	334,100	625,400
Aerial Device	85,800	-
<u>Water</u>		
Acquisition of Meters and Valves	144,900	145,000
Distribution System Improvements	376,100	311,600
Water System Contributed Capital from City	35,200	115,600
<u>Wastewater</u>		
Lift Station Improvements	51,400	89,100
Treatment Facility Improvements	1,753,100	85,500
Acquisition of 42 Acres of Land	-	724,100
<u>Construction in Progress</u>		
Electric System Improvements Project	76,300	-
Wastewater Treatment Expansion Project	10,050,900	15,020,000

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2010 AND 2009**

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, 2010 was \$75,000. 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 \$25,966,788 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, 2010 AND 2009**

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 2010 Operating Budget Analysis is presented as follows:

	2010 Budget	2010 Actual	Favorable (Unfavorable) Variance
Utility Operating Revenue	\$ 20,010,000	\$ 20,396,164	\$ 386,164
Other Operating Revenue	289,000	345,330	56,330
Total Operating Revenue	20,299,000	20,741,494	442,494
Purchased Power	12,348,000	12,872,692	(524,692)
Other Operating Expense	5,125,200	5,187,962	(62,762)
Depreciation and Amortization Expense	2,280,800	2,634,926	(354,126)
Total Operating Expense	19,754,000	20,695,580	(941,580)
Operating Income	545,000	45,914	(499,086)
Net Nonoperating Revenue	883,000	632,747	(250,253)
Income Before Capital Contributions from City and Operating Transfers to the City	1,428,000	678,661	(749,339)
Capital Contributions	-	4,335,748	4,335,748
Operating Transfers to the City	(722,000)	(754,046)	(32,046)
Change in Net Assets	<u>\$ 706,000</u>	<u>\$ 4,260,363</u>	<u>\$ 3,554,363</u>

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2010 AND 2009**

Economic Factors and Next Year's Budget and Rates

A summary of the 2011 Operating Budget approved by the Commission is presented as follows:

	2011 Budget
Utility Operating Revenue	\$ 20,754,000
Other Operating Revenue	305,000
Total Operating Revenue	21,059,000
Purchased Power	13,365,000
Other Operating Expense	5,117,600
Depreciation and Amortization Expense	3,123,400
Total Operating Expense	21,606,000
Operating Income	(547,000)
Net Nonoperating Revenue	167,000
Income Before Capital Contributions from City and Transfers to the City	(380,000)
Transfers to the City	(755,000)
Change in Net Assets	\$ (1,135,000)

BPU adjusted all utility rates effective October 1, 2009. There were no additional utility rate adjustments in 2010, however, electric and water utility rates have been adjusted effective January 1, 2011. The primary reason for the adjustment in 2011 is due to Minnesota Power, the wholesale power provider for BPU, raising its rates effective January 1, 2010 and 2011, to wholesale municipal customers.

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, 2010 AND 2009**

ASSETS	2010	2009
UTILITY PLANT		
In Service	\$ 71,918,367	\$ 57,904,477
Construction in Progress	10,127,185	17,249,732
Total Investment in Utility Plant	82,045,552	75,154,209
Less: Accumulated Depreciation	(23,258,159)	(27,054,839)
Net Utility Plant	58,787,393	48,099,370
RESTRICTED ASSETS		
Cash and Investments	4,732,266	5,772,483
Notes Receivable	8,829,265	4,890,692
Notes Receivable - Interest	96,364	-
Total Restricted Assets	13,657,895	10,663,175
CURRENT ASSETS		
Cash and Investments	8,972,324	9,108,598
Accounts Receivable	2,368,052	2,256,975
Due from Power Supplier	1,367,493	-
Interest Receivable	74,705	68,371
Due from the City of Brainerd	89,763	112,381
Inventory	1,013,391	815,346
Prepaid Expenses	56,761	68,781
Total Current Assets	13,942,489	12,430,452
OTHER ASSETS		
Service Territory Acquisitions, Net of Accumulated Amortization	37,794	45,788
Deferred Charges	163,811	177,751
Total Other Assets	201,605	223,539
Total Assets	\$ 86,589,382	\$ 71,416,536

LIABILITIES AND NET ASSETS	<u>2010</u>	<u>2009</u>
NET ASSETS		
Invested in Utility Plant, Net of Related Debt	\$ 25,854,181	\$ 29,033,909
Restricted	9,419,280	5,026,704
Unrestricted	11,251,107	8,203,592
Total Net Assets	<u>46,524,568</u>	<u>42,264,205</u>
LONG-TERM LIABILITIES		
Electric Utility Revenue Bonds Payable	8,925,000	9,545,000
General Obligation Sewer Revenue Notes Payable	1,231,000	1,421,000
General Obligation Build America Bonds Payable	24,018,000	12,165,075
Compensated Absences	665,666	620,629
Other Postemployment Benefit Obligation	35,939	21,988
Capital Lease Payable	50,000	75,000
Total Long-Term Liabilities	<u>34,925,605</u>	<u>23,848,692</u>
CURRENT LIABILITIES		
Accounts Payable	1,480,829	1,134,110
Due to Power Supplier	-	1,122,998
Electric Utility Revenue Bonds Payable	620,000	595,000
General Obligation Sewer Revenue Notes Payable	190,000	186,000
General Obligation Build America Bonds Payable	1,048,788	900,000
Capital Lease Payable	25,000	25,000
Payable to City of Brainerd	413,544	266,417
Accrued Expenses		
Salaries and Withholding Taxes	232,403	204,104
Sales Taxes	64,606	58,400
Current Liabilities Payable from Restricted Assets:		
Bond Interest	322,617	147,609
Conservation Incentive Program Payable	537,269	453,193
Customer Deposits	204,153	210,808
Total Current Liabilities	<u>5,139,209</u>	<u>5,303,639</u>
Total Liabilities	<u>40,064,814</u>	<u>29,152,331</u>
Total Liabilities and Net Assets	<u>\$ 86,589,382</u>	<u>\$ 71,416,536</u>

BRainerd PUBLIC UTILITIES
BRainerd, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

OPERATING REVENUES	2010	2009
Utility Revenues		
Residential	\$ 6,139,906	\$ 5,910,565
Commercial	6,663,761	6,425,182
Large Commercial	4,351,528	4,266,169
Industrial	2,386,307	2,270,249
City of Brainerd	423,188	553,335
Internal Use	431,474	333,740
Total Utility Revenues	20,396,164	19,759,240
Other Operating Revenues		
Penalties	122,968	115,068
Other	222,362	162,366
Total Other Operating Revenues	345,330	277,434
Total Operating Revenues	20,741,494	20,036,674
OPERATING EXPENSES		
Production and Treatment		
Salaries and Wages	440,693	409,978
Purchased Services	363,925	302,704
Supplies and Maintenance	102,519	149,629
Employee Benefits	128,379	132,761
Other Charges	12,204	9,319
Total Production Expenses	1,047,720	1,004,391
Purchased Power	12,872,692	11,752,885
Distribution and Collection		
Salaries and Wages	1,031,943	1,000,391
Purchased Services	403,092	467,250
Supplies and Maintenance	174,377	178,029
Employee Benefits	413,828	403,291
Other Charges	36,018	15,319
Total Distribution and Collection Expenses	2,059,258	2,064,280
Administration		
Salaries and Wages	1,015,189	1,047,502
Purchased Services	258,420	278,973
Supplies and Maintenance	75,601	68,018
Insurance and Bonds	149,162	156,233
Employee Benefits	349,492	341,007
Other Charges	233,120	129,577
Total Administration Expenses	2,080,984	2,021,310
Depreciation and Amortization	2,634,926	2,634,226
Total Operating Expenses	\$ 20,695,580	\$ 19,477,092

	<u>2010</u>	<u>2009</u>
OPERATING INCOME	\$ 45,914	\$ 559,582
NONOPERATING REVENUE (EXPENSE)		
Interest Income - Investments	379,133	286,480
Interest Income - Notes Receivable	270,465	19,141
Interest Expense	(841,978)	(575,672)
Local Option Sales Tax	815,593	854,427
Federal Grant Revenue - Build America Bond	155,171	23,091
Other Grant Revenue	10,576	-
Loss on Disposal of Capital Assets	(156,213)	(700)
Net Nonoperating Revenue	<u>632,747</u>	<u>606,767</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	678,661	1,166,349
CAPITAL CONTRIBUTIONS	4,335,748	5,125,637
TRANSFERS TO THE CITY	<u>(754,046)</u>	<u>(636,463)</u>
CHANGE IN NET ASSETS	4,260,363	5,655,523
Net Assets - Beginning	<u>42,264,205</u>	<u>36,608,682</u>
NET ASSETS - ENDING	<u>\$ 46,524,568</u>	<u>\$ 42,264,205</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 19,402,501	\$ 20,229,085
Cash Payments to Employees for Services	(2,414,489)	(2,430,195)
Cash Payments to Other Suppliers of Goods or Services	(16,488,780)	(13,004,034)
	499,232	4,794,856
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Primary Government	(606,919)	(509,895)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to Utility Plant	(13,476,580)	(18,729,280)
Proceeds from Issuance of Bonds and Notes	12,901,713	13,065,075
Proceeds from Local Option Sales Tax	834,500	857,667
Principal Paid on Long-Term Debt	(1,681,000)	(752,000)
Interest Paid on Long-Term Debt	(666,970)	(480,132)
Additions to Deferred Charges	-	(18,621)
Payments on Capital Lease	(25,000)	(25,000)
Principal Received on Notes Receivable	362,000	119,366
Federal Grant Revenue - Build America Bond	113,509	23,091
Proceeds from Sale of Utility Plant	36,950	-
	(1,600,878)	(5,939,834)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	532,074	406,657
Purchase of Investments	(6,360,274)	(4,881,150)
Redemption of Investments	7,518,414	3,211,273
	1,690,214	(1,263,220)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,351)	(2,918,093)
Cash and Cash Equivalents - Beginning	6,360,894	9,278,987
CASH AND CASH EQUIVALENTS - ENDING	\$ 6,342,543	\$ 6,360,894

	2010	2009
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 45,914	\$ 559,582
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	2,634,926	2,634,226
Revenue Reduced for Uncollectible Accounts	32,961	29,160
(Increase) Decrease in Assets:		
Accounts Receivable	(55,127)	119,001
Due from Power Supplier	(1,367,493)	-
Prepaid Expenses	12,020	(6,939)
Inventories	(198,045)	71,870
Increase (Decrease) in Liabilities:		
Accounts Payable	(776,838)	141,884
Due to Power Provider	-	1,122,998
Accrued Liabilities	27,850	22,346
Conservation Incentive Program Payable	84,076	65,392
Accrued Compensated Absences	45,037	13,348
Other Postemployment Benefit Obligation	13,951	21,988
Net Cash Provided by Operating Activities	\$ 499,232	\$ 4,794,856
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and Investments - Current Assets	\$ 8,972,324	\$ 9,108,598
Cash and Investments - Restricted Assets	4,732,266	5,772,483
Cash and Investments - Balance Sheets	13,704,590	14,881,081
Less: Investments not Meeting the Definition of Cash Equivalents	7,362,047	8,520,187
Cash and Cash Equivalents - Ending	\$ 6,342,543	\$ 6,360,894
NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Contribution of Utility Plant from Primary Government	\$ 35,175	\$ 115,579
Contribution of Notes Receivable	4,300,573	5,010,058
Purchase of Utility Plant on Account	(9,606)	(519,369)
Net Increase (Decrease) in Fair Value of Investments	14,826	(102,648)

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**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 only 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, 2010 AND 2009**

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 \$5,000 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 \$1,114,750 of which \$272,771 was capitalized.

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, 2010 AND 2009**

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. The balance of allowance for doubtful accounts as of December 31, 2010 and 2009 was zero for both years.

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 post-employment 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, 2010 AND 2009**

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 and Due To/From Power Supplier

Monthly bills from the wholesale power supplier, which are for power costs to the last day of the month, are reflected in the accounts. Amount due to/from power supplier represents true-up portion either due from or due to power supplier over/under amount billed as capacity and generation charges during each year.

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 at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Electric	\$ 26,505,721	\$ 25,088,493
Water	14,219,023	14,298,984
Wastewater Treatment	25,414,454	12,737,831
General Plant	<u>5,779,169</u>	<u>5,779,169</u>
Total Utility Plant in Service	<u>\$ 71,918,367</u>	<u>\$ 57,904,477</u>

**BRainerd PUBLIC UTILITIES
BRainerd, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 2 UTILITY PLANT IN SERVICE (CONTINUED)

A summary of utility plant activity for the year ended December 31, 2010 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Electric	\$ 25,088,493	\$ 1,775,540	\$ 358,312	\$ 26,505,721
Water	14,298,984	556,150	636,111	14,219,023
Wastewater Treatment	12,737,831	18,284,011	5,607,388	25,414,454
General Plant	5,779,169	-	-	5,779,169
Construction in Progress	17,249,732	11,220,999	18,343,546	10,127,185
	<u>75,154,209</u>	<u>31,836,700</u>	<u>24,945,357</u>	<u>82,045,552</u>
Accumulated Depreciation	<u>(27,054,839)</u>	<u>(2,611,968)</u>	<u>(6,408,648)</u>	<u>(23,258,159)</u>
Net Utility Plant	<u>\$ 48,099,370</u>	<u>\$ 29,224,732</u>	<u>\$ 18,536,709</u>	<u>\$ 58,787,393</u>

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	<u>(24,708,161)</u>	<u>(2,612,193)</u>	<u>(265,515)</u>	<u>(27,054,839)</u>
Net Utility Plant	<u>\$ 32,349,891</u>	<u>\$ 18,229,374</u>	<u>\$ 2,479,895</u>	<u>\$ 48,099,370</u>

Capital assets not being depreciated totaled \$11,413,272 and \$18,635,818 at December 31, 2010 and 2009, respectively.

NOTE 3 RESTRICTED ASSETS

Cash and Investments

At December 31, 2010 and 2009, restricted cash and investments consisted of the following:

	2010	2009
Customer Deposits	\$ 204,153	\$ 210,808
City of Brainerd Contribution	153,664	136,012
Conservation Incentive Program	537,269	453,193
Electric Utility Revenue Bonds Construction Reserve	662,604	1,757,253
Electric Utility Revenue Bonds Debt Service Reserve	1,231,762	1,269,330
General Obligation Revenue Notes and Bonds Debt Service Reserve	1,942,814	1,945,887
Total Restricted Cash and Investments	<u>\$ 4,732,266</u>	<u>\$ 5,772,483</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, 2010 AND 2009**

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, 2010 and 2009 of \$153,664 and \$136,012, respectively, represents 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, 2010 and 2009 of \$8,925,629 and \$4,890,692, respectively, represents the amount of receivable from the City of Baxter as discussed below, for total restricted net assets at December 31, 2010 and 2009 of \$9,079,293 and \$5,026,704, 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 \$11,667,000 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, 2010, is as follows:

	<u>Note No.1</u>	<u>Note No.2</u>	<u>Total</u>
Beginning Balance	\$ 535,667	\$4,355,025	\$4,890,692
Additions	-	4,300,573	4,300,573
Payments Received	(62,000)	(300,000)	(362,000)
Ending Balance	<u>\$ 473,667</u>	<u>\$8,355,598</u>	<u>\$8,829,265</u>

Additions to notes receivable are recorded as Capital Contributions on the Statements of Revenues, Expenses, and Changes in Net Assets. Interest accrued on the notes receivable as of December 31, 2010 and 2009 of \$96,364 and \$0, respectively, is recorded as a restricted asset. Interest received from

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

Notes Receivable (Continued)

Baxter which is recorded as Interest Income for the years ended December 31, 2010 and 2009 was \$270,465 and \$19,141, respectively.

NOTE 4 DEPOSITS AND INVESTMENTS

Cash and investments are presented at December 31, 2010 and 2009, as follows:

	2010	2009
Restricted Cash and Investments	\$ 4,732,266	\$ 5,772,483
Current Cash and Investments	8,972,324	9,108,598
Total	<u>\$ 13,704,590</u>	<u>\$ 14,881,081</u>

Cash and investments at December 31, 2010 and 2009, consisted of the following:

	2010	2009
Petty Cash	\$ 1,500	\$ 1,500
Deposits	4,052,328	1,999,681
Investments	9,650,762	12,879,900
Total	<u>\$ 13,704,590</u>	<u>\$ 14,881,081</u>

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, 2010 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, 2010 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 Statutes* 118A.04, subd.6;

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Authorized Investments (Continued)

- mutual funds through shares of registered investments companies provided the mutual fund receives certain ratings depending on its investments;
- 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);
- bankers 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, 2010 by maturity:

Investment Type	Investment Maturities (in Years)			Fair Value
	Less Than 1	1-5	6-10	
<u>December 31, 2010</u>				
FHLB	\$ -	\$ -	\$ 809,523	\$ 809,523
FHLMC	-	400,364	3,466,285	3,866,649
FNMA	-	-	1,620,875	1,620,875
CP-Dexia Delaware Repurchase Agreement	1,065,000	-	-	1,065,000
	2,288,715	-	-	2,288,715
Total	\$ 3,353,715	\$ 400,364	\$ 5,896,683	\$ 9,650,762

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Risk Disclosures (Continued)

Interest Rate Risk (Continued)

The repurchase agreement investment as of December 31, 2010 represents an ongoing overnight repurchase agreement arrangement at applicable daily quoted rates. The rate at December 31, 2010 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, 2010 are as follows:

Investment Type	S & P Rating	% of Investments
<u>December 31, 2010</u>		
FHLB	AAA	8.4%
FHLMC	AAA	40.1%
FNMA	AAA	16.8%
CP-Dexia Delaware	A1	11.0%
Repurchase Agreement	Not Rated	23.7%
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, 2010, 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, 2010 BPU has a custodial credit risk of \$2,288,715 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, 2010 AND 2009**

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, 2010 and 2009, the BPU owed the City the following:

	2010	2009
Monthly Operating Contribution	\$ 65,729	\$ 52,113
Water System Improvement Projects	259,880	130,405
Wastewater Collection and Storm Sewer Charges	87,935	83,899
Total	<u>\$ 413,544</u>	<u>\$ 266,417</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, 2010 and 2009, with related accumulated depreciation of \$73,035 and \$59,756, respectively. Depreciation expense related to this asset for the years ended December 31, 2010 and 2009 was \$13,279 and \$13,279, respectively.

Capital lease activity for the year ended December 31, 2010 was as follows:

Beginning Balance	\$ 100,000
Reductions	<u>(25,000)</u>
Ending Balance	<u>\$ 75,000</u>

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

Year Ended December 31,	
2011	\$ 25,000
2012	25,000
2013	<u>25,000</u>
Total	<u>\$ 75,000</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 7 LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 2010 and 2009:

	2010	2009
<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.	\$ 9,545,000	\$ 10,140,000
<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.	1,421,000	1,607,000
<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 was \$25,966,788.	25,066,788	13,065,075
Total Debt	36,032,788	24,812,075
<u>Less Amount Due Within One Year</u>		
Electric Utility Revenue Bonds	620,000	595,000
General Obligation Sewer Revenue Notes	190,000	186,000
General Obligation Build America Bonds	1,048,788	900,000
Net Long-Term Debt	\$ 34,174,000	\$ 23,131,075

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, 2010 AND 2009**

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 \$25,966,788 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
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	735,000	287,638	1,022,638
2016-2020	4,205,000	968,294	5,173,294
2021-2022	1,955,000	128,313	2,083,313
Total	<u>\$ 9,545,000</u>	<u>\$ 2,805,397</u>	<u>\$ 12,350,397</u>

Year Ending December 31,	General Obligation Sewer Revenue Notes		
	Principal	Interest	Total
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	207,000	14,183	221,183
2016-2017	429,000	14,405	443,405
Total	<u>\$ 1,421,000</u>	<u>\$ 129,562</u>	<u>\$ 1,550,562</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 7 LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	General Obligation Build America Bonds		
	Principal	Interest	Total
2011	\$ 1,048,788	\$ 789,136	\$ 1,837,924
2012	1,082,000	776,502	1,858,502
2013	1,117,000	741,521	1,858,521
2014	1,153,000	705,408	1,858,408
2015	1,190,000	668,132	1,858,132
2016-2020	6,556,000	2,737,866	9,293,866
2021-2025	7,687,000	1,607,286	9,294,286
2026-2028	5,233,000	341,955	5,574,955
Total	<u>\$ 25,066,788</u>	<u>\$ 8,367,806</u>	<u>\$ 33,434,594</u>

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, 2010 was \$1,942,814. 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, 2010, is as follows:

	Electric Utility Revenue Bonds	G.O. Sewer Revenue Notes	G.O. Build America Bonds
Beginning Balance	\$ 10,140,000	\$ 1,607,000	\$ 13,065,075
Additions	-	-	12,901,713
Retirements	(595,000)	(186,000)	(900,000)
Ending Balance	<u>\$ 9,545,000</u>	<u>\$ 1,421,000</u>	<u>\$ 25,066,788</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 7 LONG-TERM DEBT (CONTINUED)

General Obligation Sewer Revenue Notes and General Obligation Build America Bonds (Continued)

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	<u>\$ 10,140,000</u>	<u>\$ 1,607,000</u>	<u>\$ 13,065,075</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 General Employees Retirement Fund (GERF), a cost-sharing multiple-employer defined benefit pension plan administered by PERA. GERF 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, 2010 AND 2009**

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 7.00% for 2010. Effective January 1, 2011, the Plan Member contribution rate will increase to 6.25% while the Employer contribution rate will increase to 7.25%. The contribution requirements of the plan members and BPU are established and may be amended by state statute. The BPU's contributions to GERF for the years ending December 31, 2010, 2009, and 2008 were \$188,914, \$181,202, and \$173,332, 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 Statutes* §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, 2010, 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, the amount actually contributed to the plan, and changes in BPU's net OPEB obligation at December 31, 2010 and 2009:

	2010	2009
Annual Required Contribution (ARC):	\$ 42,765	\$ 42,765
Interest on Net OPEB Obligation	989	-
Adjustment to ARC	(1,321)	-
Annual OPEB Cost	42,433	42,765
Contributions during the year	28,482	20,777
Net OPEB Obligation	13,951	21,988
Net OPEB - Beginning of the Year	21,988	-
Net OPEB - End of the Year	\$ 35,939	\$ 21,988
Percentage Contributed	67%	49%

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 2010 and 2009 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2010	\$ 42,433	\$ 28,482	67%	\$ 35,939
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 over thirty years on a closed basis.

**BRainerd PUBLIC UTILITIES
BRainerd, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 \$0.0030 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, 2010 and 2009, net sales to one industrial customer totaled \$2,386,307 and \$2,270,249, representing 11.7% and 11.5% of total utility revenue, respectively. A concentration of BPU's accounts receivable from this one industrial customer at December 31, 2010 and 2009, consisted of approximately 5% and 8%, 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, 2010, BPU was committed under various construction contracts related to the upgrade and expansion of the wastewater treatment facility. Total contract price is approximately \$26.7 million, with approximately \$25.7 million being paid as of December 31, 2010, and the remaining commitment being approximately \$1.0 million. The project was financed by General Obligation Build America Bonds through December 31, 2010 and will be financed with internal cash flow for project costs incurred in 2011.

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REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 SCHEDULE OF FUNDING PROGRESS OTHER POSTEMPLOYMENT BENEFIT PLAN
 YEAR ENDED DECEMBER 31, 2010**

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, 2010
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2009)
(UNAUDITED)**

ASSETS	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER TREATMENT</u>
UTILITY PLANT			
Construction in Progress	\$ 76,317	\$ -	\$ 10,050,868
In Service	29,558,999	15,384,056	26,975,312
Total Investment in Utility Plant	<u>29,635,316</u>	<u>15,384,056</u>	<u>37,026,180</u>
Less: Accumulated Depreciation	(11,380,489)	(6,476,036)	(5,401,634)
Net Utility Plant	<u>18,254,827</u>	<u>8,908,020</u>	<u>31,624,546</u>
RESTRICTED ASSETS			
Cash and Investments			
Customer Deposits	204,153	-	-
City of Brainerd Contribution	65,729	-	87,935
Conservation Incentive Program	537,269	-	-
Construction Reserve	662,604	-	-
Debt Service Reserve	1,231,762	-	1,942,814
Total Restricted Cash and Investments	<u>2,701,517</u>	<u>-</u>	<u>2,030,749</u>
Notes Receivable	-	-	8,829,265
Notes Receivable - Interest	-	-	96,364
Total Restricted Assets	<u>2,701,517</u>	<u>-</u>	<u>10,956,378</u>
CURRENT ASSETS			
Cash and Investments	4,454,990	334,702	4,182,632
Accounts Receivable	1,815,748	186,117	366,187
Due from Power Supplier	1,367,493	-	-
Interest Receivable	74,705	-	-
Due from the City of Brainerd	30,140	4,794	54,829
Inventory	938,568	74,823	-
Prepaid Expenses	56,761	-	-
Total Current Assets	<u>8,738,405</u>	<u>600,436</u>	<u>4,603,648</u>
OTHER ASSETS			
Service Territory Acquisitions, Net of			
Accumulated Amortization	37,794	-	-
Deferred Charges	130,909	-	32,902
Total Other Assets	<u>168,703</u>	<u>-</u>	<u>32,902</u>
Total Assets	<u>\$ 29,863,452</u>	<u>\$ 9,508,456</u>	<u>\$ 47,217,474</u>

TOTALS

2010	2009
\$ 10,127,185	\$ 17,249,732
71,918,367	57,904,477
<u>82,045,552</u>	<u>75,154,209</u>
(23,258,159)	(27,054,839)
<u>58,787,393</u>	<u>48,099,370</u>
204,153	210,808
153,664	136,012
537,269	453,193
662,604	1,757,253
<u>3,174,576</u>	<u>3,215,217</u>
4,732,266	5,772,483
8,829,265	4,890,692
96,364	-
<u>13,657,895</u>	<u>10,663,175</u>
8,972,324	9,108,598
2,368,052	2,256,975
1,367,493	-
74,705	68,371
89,763	112,381
1,013,391	815,346
56,761	68,781
<u>13,942,489</u>	<u>12,430,452</u>
37,794	45,788
<u>163,811</u>	<u>177,751</u>
<u>201,605</u>	<u>223,539</u>
<u>\$ 86,589,382</u>	<u>\$ 71,416,536</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING BALANCE SHEETS BY DEPARTMENT (CONTINUED)
DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2009)
(UNAUDITED)**

LIABILITIES AND NET ASSETS	ELECTRIC	WATER	WASTEWATER TREATMENT
NET ASSETS			
Invested in Utility Plant, Net of Related Debt	\$ 9,916,589	\$ 8,883,020	\$ 7,054,572
Restricted	694,809	-	8,724,471
Unrestricted	6,831,384	63,110	4,356,613
Total Net Assets	<u>17,442,782</u>	<u>8,946,130</u>	<u>20,135,656</u>
LONG-TERM LIABILITIES			
Electric Utility Revenue Bonds Payable	8,925,000	-	-
General Obligation Sewer Revenue Notes Payable	-	-	1,231,000
General Obligation Build America Bonds Payable	-	-	24,018,000
Compensated Absences	354,477	184,494	126,695
Other Postemployment Benefit Obligation	19,766	9,508	6,665
Capital Lease Payable	16,667	16,667	16,666
Total Long-Term Liabilities	<u>9,315,910</u>	<u>210,669</u>	<u>25,399,026</u>
CURRENT LIABILITIES			
Accounts Payable	1,447,868	17,819	15,142
Due to Power Supplier	-	-	-
Electric Utility Revenue Bonds Payable	620,000	-	-
General Obligation Sewer Revenue Notes Payable	-	-	190,000
General Obligation Build America Bonds Payable	-	-	1,048,788
Capital Lease Payable	8,333	8,333	8,334
Payable to City of Brainerd	65,729	259,880	87,935
Accrued Expenses			
Salaries and Withholding Taxes	125,470	63,491	43,442
Sales Taxes	62,414	2,134	58
Current Liabilities Payable from Restricted Assets:			
Bond Interest	33,524	-	289,093
Conservation Incentive Program Payable	537,269	-	-
Customer Deposits	204,153	-	-
Total Current Liabilities	<u>3,104,760</u>	<u>351,657</u>	<u>1,682,792</u>
Total Liabilities	<u>12,420,670</u>	<u>562,326</u>	<u>27,081,818</u>
Total Liabilities and Net Assets	<u>\$ 29,863,452</u>	<u>\$ 9,508,456</u>	<u>\$ 47,217,474</u>

TOTALS

2010	2009
\$ 25,854,181	\$ 29,033,909
9,419,280	5,026,704
11,251,107	8,203,592
<u>46,524,568</u>	<u>42,264,205</u>
8,925,000	9,545,000
1,231,000	1,421,000
24,018,000	12,165,075
665,666	620,629
35,939	21,988
50,000	75,000
<u>34,925,605</u>	<u>23,848,692</u>
1,480,829	1,134,110
-	1,122,998
620,000	595,000
190,000	186,000
1,048,788	900,000
25,000	25,000
413,544	266,417
232,403	204,104
64,606	58,400
322,617	147,609
537,269	453,193
204,153	210,808
<u>5,139,209</u>	<u>5,303,639</u>
40,064,814	29,152,331
<u>\$ 86,589,382</u>	<u>\$ 71,416,536</u>

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 BY DEPARTMENT
 FOR THE YEAR ENDED DECEMBER 31, 2010
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2009)
 (UNAUDITED)**

	ELECTRIC	WATER	WASTEWATER TREATMENT
OPERATING REVENUES			
Utility Revenues			
Residential	\$ 4,113,072	\$ 813,568	\$ 1,213,266
Commercial	4,878,030	819,726	966,005
Large Commercial	4,351,528	-	-
Industrial	2,386,307	-	-
City of Brainerd	350,392	66,544	6,252
Internal Use	405,541	25,629	304
Total Utility Revenues	<u>16,484,870</u>	<u>1,725,467</u>	<u>2,185,827</u>
Other Operating Revenues			
Penalties	86,869	13,412	22,687
Other	175,687	30,662	16,013
Total Other Operating Revenues	<u>262,556</u>	<u>44,074</u>	<u>38,700</u>
Total Operating Revenues	16,747,426	1,769,541	2,224,527
OPERATING EXPENSES			
Production and Treatment			
Salaries and Wages	-	227,588	213,105
Purchased Services	-	58,260	305,665
Supplies and Maintenance	-	54,554	47,965
Employee Benefits	-	67,963	60,416
Other Charges	-	1,520	10,684
Total Production Expenses	<u>-</u>	<u>409,885</u>	<u>637,835</u>
Purchased Power	12,872,692	-	-
Distribution and Collection			
Salaries and Wages	716,823	216,084	99,036
Purchased Services	200,753	94,671	107,668
Supplies and Maintenance	98,047	53,584	22,746
Employee Benefits	294,441	87,646	31,741
Other Charges	12,309	8,815	14,894
Total Distribution and Collection Expenses	<u>1,322,373</u>	<u>460,800</u>	<u>276,085</u>

TOTALS

2010	2009
\$ 6,139,906	\$ 5,910,565
6,663,761	6,425,182
4,351,528	4,266,169
2,386,307	2,270,249
423,188	553,335
431,474	333,740
<u>20,396,164</u>	<u>19,759,240</u>
122,968	115,068
<u>222,362</u>	<u>162,366</u>
<u>345,330</u>	<u>277,434</u>
20,741,494	20,036,674
440,693	409,978
363,925	302,704
102,519	149,629
128,379	132,761
12,204	9,319
<u>1,047,720</u>	<u>1,004,391</u>
12,872,692	11,752,885
1,031,943	1,000,391
403,092	467,250
174,377	178,029
413,828	403,291
36,018	15,319
<u>2,059,258</u>	<u>2,064,280</u>

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 BY DEPARTMENT (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2010
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2009)
 (UNAUDITED)**

	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER TREATMENT</u>
OPERATING EXPENSES (CONTINUED)			
Administration			
Salaries and Wages	\$ 566,119	\$ 228,744	\$ 220,326
Purchased Services	161,159	52,181	45,080
Supplies and Maintenance	48,466	14,790	12,345
Insurance and Bonds	67,123	44,749	37,290
Employee Benefits	195,063	80,493	73,936
Other Charges	176,578	22,602	33,940
Total Administration Expenses	<u>1,214,508</u>	<u>443,559</u>	<u>422,917</u>
Depreciation and Amortization	<u>1,157,484</u>	<u>488,981</u>	<u>988,461</u>
Total Operating Expenses	<u>16,567,057</u>	<u>1,803,225</u>	<u>2,325,298</u>
OPERATING INCOME (LOSS)	180,369	(33,684)	(100,771)
NONOPERATING REVENUE (EXPENSE)			
Interest Income - Investments	263,298	127	115,708
Interest Income - Notes Receivable	-	-	270,465
Interest Expense	(415,411)	-	(426,567)
Local Option Sales Tax	-	-	815,593
Federal Grant Revenue - Build America Bond	-	-	155,171
Other Grant Revenue	-	-	10,576
Loss on Disposal of Capital Assets	(156,213)	-	-
Net Nonoperating Revenue (Expense)	<u>(308,326)</u>	<u>127</u>	<u>940,946</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(127,957)	(33,557)	840,175
CAPITAL CONTRIBUTIONS	-	35,175	4,300,573
TRANSFERS TO THE CITY	<u>(754,046)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>\$ (882,003)</u>	<u>\$ 1,618</u>	<u>\$ 5,140,748</u>

TOTALS

2010	2009
\$ 1,015,189	\$ 1,047,502
258,420	278,973
75,601	68,018
149,162	156,233
349,492	341,007
233,120	129,577
<u>2,080,984</u>	<u>2,021,310</u>
2,634,926	2,634,226
<u>20,695,580</u>	<u>19,477,092</u>
45,914	559,582
379,133	286,480
270,465	19,141
(841,978)	(575,672)
815,593	854,427
155,171	23,091
10,576	-
<u>(156,213)</u>	<u>(700)</u>
<u>632,747</u>	<u>606,767</u>
678,661	1,166,349
4,335,748	5,125,637
<u>(754,046)</u>	<u>(636,463)</u>
<u>\$ 4,260,363</u>	<u>\$ 5,655,523</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ELECTRIC DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2001 THROUGH 2010
(UNAUDITED)**

	2001	2002	2003	2004	2005	2006
Electric Plant						
In Service (Thousands)	\$ 14,324	\$ 15,870	\$ 16,622	\$ 16,890	\$ 18,371	\$ 19,402
Investment Per Meter	\$ 2,034	\$ 2,224	\$ 2,311	\$ 2,278	\$ 2,412	\$ 2,512
Investment Per Dollar of Electric Revenue	\$ 1.42	\$ 1.58	\$ 1.38	\$ 1.37	\$ 1.30	\$ 1.29
Accumulated Depreciation (Thousands)	\$ 7,481	\$ 8,056	\$ 8,576	\$ 8,207	\$ 8,818	\$ 9,582
Percent of Plant	52.2%	50.8%	51.6%	48.6%	48.0%	49.4%
Annual Depreciation (Thousands)	\$ 635	\$ 723	\$ 717	\$ 768	\$ 825	\$ 820
Percent of Annual Depreciation to Average Plant in Service	4.6%	4.8%	4.4%	4.6%	4.7%	4.3%
Number of Meters (Year-End)	7,041	7,135	7,192	7,415	7,616	7,723
Cost of Power						
KWH Purchased (Thousands)	185,856	188,124	222,238	197,290	247,648	259,671
Total Cost (Thousands)	\$ 7,068	\$ 6,849	\$ 8,161	\$ 7,991	\$ 9,476	\$ 10,272
Cost Per KWH Purchased (Cents)	3.80	3.64	3.67	4.05	3.82	3.96
Percent of System Loss	8.0%	7.5%	6.1%	5.6%	5.2%	4.7%
Average Load Factor for Year	68.1%	68.5%	69.7%	67.5%	72.3%	73.0%
Electric Revenue						
KWH Sold (Thousands)	171,004	174,095	208,609	186,328	234,765	247,585
Electric Revenue (Thousands)	\$ 10,052	\$ 10,051	\$ 12,075	\$ 12,297	\$ 14,101	\$ 15,051
Per KWH Sold (Cents)	5.88	5.77	5.79	6.60	6.01	6.08
Gross Margin Per KWH (Cents)	2.08	2.13	2.12	2.55	2.19	2.12
Operating Income (Thousands)	\$ 886	\$ 720	\$ 1,419	\$ 1,566	\$ 2,029	\$ 1,643
Change in Net Assets (Thousands)	\$ 634	\$ (1,066)	\$ (557)	\$ 1,019	\$ 1,423	\$ 1,129

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

2007	2008	2009	2010
\$ 20,851	\$ 25,166	\$ 28,142	\$ 29,559
\$ 2,698	\$ 3,228	\$ 3,607	\$ 3,778
\$ 1.22	\$ 1.45	\$ 1.75	\$ 1.79
\$ 10,241	\$ 9,404	\$ 10,409	\$ 11,380
49.1%	37.4%	37.0%	38.5%
\$ 851	\$ 884	\$ 1,086	\$ 1,137
4.2%	3.8%	4.1%	3.9%
7,728	7,796	7,801	7,824
262,543	256,066	230,564	239,580
\$ 12,112	\$ 11,588	\$ 11,753	\$ 12,873
4.61	4.53	5.10	5.37
4.8%	5.6%	4.2%	3.7%
71.4%	72.0%	70.2%	70.3%
249,974	241,640	221,000	230,756
\$ 17,149	\$ 17,307	\$ 16,079	\$ 16,485
6.86	7.16	7.28	7.14
2.25	2.63	2.18	1.77
\$ 1,989	\$ 2,417	\$ 874	\$ 180
\$ 1,579	\$ 1,703	\$ 45	\$ (882)

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WATER DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2001 THROUGH 2010
(UNAUDITED)**

	2001	2002	2003	2004	2005	2006
Water Plant						
In Service (Thousands)	\$ 7,248	\$ 7,777	\$ 7,730	\$ 9,097	\$ 12,070	\$ 12,689
Investment Per Meter	\$ 1,690	\$ 1,784	\$ 1,764	\$ 2,017	\$ 2,614	\$ 2,712
Investment Per Dollar of Water Revenue	\$ 6.87	\$ 7.03	\$ 6.41	\$ 7.27	\$ 8.59	\$ 7.94
Accumulated Depreciation (Thousands)	\$ 4,260	\$ 4,507	\$ 4,519	\$ 4,546	\$ 5,078	\$ 5,539
Percent of Plant	58.8%	58.0%	58.5%	50.0%	45.8%	43.7%
Annual Depreciation (Thousands)	\$ 309	\$ 369	\$ 374	\$ 399	\$ 510	\$ 509
Percent of Annual Depreciation to Average Plant in Service	4.3%	4.9%	4.8%	4.7%	4.6%	4.1%
Number of Meters (Year-End)	4,289	4,360	4,382	4,511	4,617	4,679
Cost of Water Production						
Gallons Pumped (Thousands)	744,078	698,015	713,447	687,083	685,547	817,520
Total Cost (Thousands)	\$ 214	\$ 207	\$ 233	\$ 291	\$ 314	\$ 419
Cost Per Thousand Gallons Pumped	\$ 0.29	\$ 0.30	\$ 0.33	\$ 0.42	\$ 0.46	\$ 0.51
Percent of System Loss	25.0%	18.0%	18.4%	15.4%	13.7%	11.2%
Water Revenue						
Gallons Sold (Thousands)	558,240	572,515	582,241	581,263	591,740	726,260
Water Revenue (Thousands)	\$ 1,055	\$ 1,106	\$ 1,206	\$ 1,251	\$ 1,405	\$ 1,598
Per Thousand Gallons Sold	\$ 1.89	\$ 1.93	\$ 2.07	\$ 2.15	\$ 2.37	\$ 2.20
Gross Margin Per Thousand Gallons Sold	\$ 1.60	\$ 1.63	\$ 1.74	\$ 1.73	\$ 1.91	\$ 1.69
Operating Income (Loss) (Thousands)	\$ 54	\$ (6)	\$ (17)	\$ (80)	\$ (66)	\$ (18)
Change in Net Assets (Thousands) Before Capital Contributions from City	\$ 64	\$ (8)	\$ (17)	\$ (93)	\$ (57)	\$ (15)

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

2007	2008	2009	2010
\$ 13,817	\$ 14,963	\$ 15,464	\$ 15,384
\$ 2,962	\$ 3,244	\$ 3,355	\$ 3,326
\$ 7.65	\$ 9.30	\$ 9.88	\$ 8.92
\$ 5,950	\$ 6,229	\$ 6,623	\$ 6,476
43.1%	41.6%	42.8%	42.1%
\$ 465	\$ 471	\$ 470	\$ 489
3.5%	3.3%	3.1%	3.2%
4,664	4,613	4,609	4,626
750,756	540,542	568,687	514,258
\$ 419	\$ 432	\$ 435	\$ 410
\$ 0.55	\$ 0.80	\$ 0.76	\$ 0.80
9.7%	10.5%	20.9%	12.2%
678,254	483,738	449,823	451,584
\$ 1,806	\$ 1,609	\$ 1,565	\$ 1,725
\$ 2.66	\$ 3.33	\$ 3.48	\$ 3.82
\$ 2.11	\$ 2.53	\$ 2.72	\$ 3.02
\$ 168	\$ (120)	\$ (172)	\$ (34)
\$ 186	\$ (112)	\$ (171)	\$ (34)

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WASTEWATER TREATMENT DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2001 THROUGH 2010
(UNAUDITED)**

	2001	2002	2003	2004	2005	2006
Wastewater Treatment Plant						
In Service (Thousands)	\$ 12,843	\$ 12,935	\$ 12,932	\$ 12,868	\$ 13,042	\$ 13,179
Investment Per Account	\$ 3,052	\$ 3,023	\$ 2,962	\$ 2,888	\$ 2,850	\$ 2,851
Investment Per Dollar of Wastewater Treatment Revenue	\$ 15.18	\$ 13.92	\$ 12.84	\$ 12.44	\$ 11.24	\$ 9.05
Accumulated Depreciation (Thousands)	\$ 6,311	\$ 6,513	\$ 6,764	\$ 6,724	\$ 7,061	\$ 7,801
Percent of Plant	49.1%	50.4%	52.3%	52.3%	54.1%	59.2%
Annual Depreciation (Thousands)	\$ 386	\$ 340	\$ 353	\$ 368	\$ 393	\$ 739
Percent of Annual Depreciation to Average Plant in Service	3.0%	2.6%	2.7%	2.8%	3.0%	5.6%
Number of Accounts (Year-End)	4,208	4,279	4,366	4,456	4,576	4,622
Cost of Wastewater Treatment						
Flow in Gallons Processed (Thousands)	957,492	947,957	958,428	830,959	887,076	858,830
Total Production Cost (Thousands)	\$ 260	\$ 295	\$ 334	\$ 435	\$ 405	\$ 402
Cost Per Thousand Gallons Processed	\$ 0.27	\$ 0.31	\$ 0.35	\$ 0.52	\$ 0.46	\$ 0.47
Percent of System Loss	36.3%	32.0%	29.0%	26.3%	29.8%	24.9%
Wastewater Treatment Revenue						
Flow in Gallons Sold (Thousands)	610,245	644,880	680,271	612,370	622,729	644,675
Wastewater Treatment Revenue (Thousands)	\$ 846	\$ 929	\$ 1,007	\$ 1,034	\$ 1,160	\$ 1,457
Per Thousand Gallons Sold	\$ 1.39	\$ 1.44	\$ 1.48	\$ 1.69	\$ 1.86	\$ 2.26
Gross Margin Per Thousand Gallons Sold	\$ 1.12	\$ 1.13	\$ 1.13	\$ 1.17	\$ 1.40	\$ 1.79
Operating Income (Loss) (Thousands)	\$ (141)	\$ (54)	\$ (35)	\$ (255)	\$ (126)	\$ (247)
Change in Net Assets (Thousands)	\$ (31)	\$ 31	\$ 8	\$ (218)	\$ (79)	\$ (183)

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

2007	2008	2009	2010
\$ 13,223	\$ 13,501	\$ 14,299	\$ 26,975
\$ 2,867	\$ 2,958	\$ 3,134	\$ 5,901
\$ 7.90	\$ 6.44	\$ 6.65	\$ 12.12
\$ 8,559	\$ 9,076	\$ 10,023	\$ 5,402
64.7%	67.2%	70.1%	20.0%
\$ 770	\$ 763	\$ 1,056	\$ 986
5.8%	5.7%	7.6%	4.8%
4,612	4,564	4,562	4,571
751,025	762,208	765,652	675,928
\$ 505	\$ 506	\$ 567	\$ 638
\$ 0.67	\$ 0.66	\$ 0.74	\$ 0.94
17.2%	15.7%	16.1%	16.1%
621,604	642,762	642,413	567,138
\$ 1,673	\$ 2,098	\$ 2,149	\$ 2,225
\$ 2.69	\$ 3.26	\$ 3.35	\$ 3.92
\$ 2.02	\$ 2.60	\$ 2.61	\$ 2.98
\$ (271)	\$ 95	\$ (142)	\$ (101)
\$ 300	\$ 927	\$ 657	\$ 840

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF UTILITY PLANT AND ACCUMULATED DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

	Cost			
	12/31/2009	Additions	Deductions	12/31/2010
Electric Department				
<u>Distribution</u>				
Land and Land Improvements	\$ 169,200	\$ -	\$ -	\$ 169,200
Distribution System	22,597,961	1,608,443	303,173	23,903,231
Street and Security Lighting System	558,666	22,742	-	581,408
Machinery and Equipment	677,815	25,383	-	703,198
Transportation Equipment	1,084,851	118,972	55,139	1,148,684
Total Electric Department	<u>25,088,493</u>	<u>1,775,540</u>	<u>358,312</u>	<u>26,505,721</u>
Water Department				
<u>Production</u>				
Structures and Improvements	1,694,913	-	-	1,694,913
Wells, Pumps and Accessories	394,724	26,485	-	421,209
Water Treatment Plant Equipment	1,311,948	118,399	145,914	1,284,433
Total Production	<u>3,401,585</u>	<u>144,884</u>	<u>145,914</u>	<u>3,400,555</u>
<u>Distribution</u>				
Distribution System	10,390,905	411,266	490,197	10,311,974
Machinery and Equipment	278,177	-	-	278,177
Transportation Equipment	228,317	-	-	228,317
Total Water Distribution	<u>10,897,399</u>	<u>411,266</u>	<u>490,197</u>	<u>10,818,468</u>
Total Water Department	<u>14,298,984</u>	<u>556,150</u>	<u>636,111</u>	<u>14,219,023</u>
Wastewater Treatment Department				
Land and Land Improvements	35,485	-	-	35,485
Collection System	3,721,205	51,411	-	3,772,616
Treatment Facility	8,502,950	18,232,599	5,607,388	21,128,161
Machinery and Equipment	349,654	-	-	349,654
Transportation Equipment	128,537	1	-	128,538
Total Wastewater Treatment Department	<u>12,737,831</u>	<u>18,284,011</u>	<u>5,607,388</u>	<u>25,414,454</u>
General Plant				
Land and Land Improvements	1,601,846	-	-	1,601,846
Service Center	3,558,390	-	-	3,558,390
Furniture and Fixtures	436,806	-	-	436,806
Transportation Equipment	114,623	-	-	114,623
Storage Building	67,504	-	-	67,504
Total General Plant	<u>5,779,169</u>	<u>-</u>	<u>-</u>	<u>5,779,169</u>
Total Utility Plant in Service	57,904,477	20,615,701	6,601,811	71,918,367
Construction Work in Progress	<u>17,249,732</u>	<u>11,220,999</u>	<u>18,343,546</u>	<u>10,127,185</u>
Total Investment in Utility Plant	<u>\$ 75,154,209</u>	<u>\$ 31,836,700</u>	<u>\$ 24,945,357</u>	<u>\$ 82,045,552</u>

Composite Depreciation Rates	Accumulated Depreciation				Percent of Plant Balance
	12/31/2009	Additions	Deductions	12/31/2010	
0.0%	\$ -	\$ -	\$ -	\$ -	0.0%
3.6%	7,521,020	866,673	110,010	8,277,683	34.6%
4.8%	149,937	27,714	-	177,651	30.6%
7.3%	434,869	51,349	-	486,218	69.1%
4.8%	795,394	54,906	55,139	795,161	69.2%
3.8%	8,901,220	1,000,642	165,149	9,736,713	36.7%
1.8%	1,456,907	30,342	-	1,487,249	87.7%
2.8%	320,177	11,875	-	332,052	78.8%
4.6%	473,559	59,456	145,914	387,101	30.1%
3.0%	2,250,643	101,673	145,914	2,206,402	64.9%
3.1%	3,411,891	316,780	490,197	3,238,474	31.4%
5.1%	176,336	14,254	-	190,590	68.5%
3.6%	210,431	8,154	-	218,585	95.7%
3.1%	3,798,658	339,188	490,197	3,647,649	33.7%
3.1%	6,049,301	440,861	636,111	5,854,051	41.2%
-	-	-	-	-	0.0%
2.6%	2,235,246	96,963	-	2,332,209	61.8%
3.9%	7,283,994	830,125	5,607,388	2,506,731	11.9%
7.2%	174,432	25,245	-	199,677	57.1%
3.6%	117,813	4,596	-	122,409	95.2%
3.8%	9,811,485	956,929	5,607,388	5,161,026	20.3%
1.9%	306,846	30,559	-	337,405	21.1%
3.7%	1,510,899	131,182	-	1,642,081	46.1%
10.2%	323,062	44,450	-	367,512	84.1%
3.5%	110,568	4,055	-	114,623	100.0%
4.9%	41,458	3,290	-	44,748	66.3%
3.7%	2,292,833	213,536	-	2,506,369	43.4%
3.6%	27,054,839	2,611,968	6,408,648	23,258,159	32.3%
-	-	-	-	-	-
3.2%	<u>\$ 27,054,839</u>	<u>\$ 2,611,968</u>	<u>\$ 6,408,648</u>	<u>\$ 23,258,159</u>	28.3%

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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, 2010 and have issued our report thereon dated April 25, 2011. 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 BPU'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, 2010-1. 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.

Brainerd Public Utilities Commission
Brainerd Public Utilities

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
LarsonAllen LLP

Brainerd, Minnesota
April 25, 2011

LarsonAllen[®] LLP

CPAs, Consultants & Advisors
www.larsonallen.com

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, 2010, and have issued our report thereon dated April 25, 2011.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provision of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, political subdivisions 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 2010.

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
LarsonAllen LLP

Brainerd, Minnesota
April 25, 2011



(55)
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**BRAINERD PUBLIC UTILITIES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2010**

SIGNIFICANT DEFICIENCY

2010-1 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.