

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA**

**FINANCIAL REPORT**

**DECEMBER 31, 2011 AND 2010**



**BRAINERD PUBLIC UTILITIES  
TABLE OF CONTENTS  
DECEMBER 31, 2011 AND 2010**

**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..... 37

**SUPPLEMENTARY INFORMATION**

Combining Balance Sheets by Department ..... 38  
Combining Statements of Revenues, Expenses and Changes  
in Net Assets by Department ..... 42  
Schedule of Utility Plant and Accumulated Depreciation..... 46

**OTHER INFORMATION**

Electric Department Statistics ..... 48  
Water Department Statistics ..... 50  
Wastewater Treatment Department Statistics ..... 52

**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*..... 54  
Report on Minnesota Legal Compliance ..... 56  
Schedule of Findings and Recommendations..... 57

## INTRODUCTORY SECTION

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
ORGANIZATIONAL DATA  
DECEMBER 31, 2011**

**COMMISSION**

		<u>Term Expires December 31,</u>
President	William Wroolie	2016
Vice President	Mark O'Day	2015
Commission Member	Don Samuelson	2013
Commission Member	Don Sievek	2014
Commission Member	Don Stang	2012

**ADMINISTRATION**

Superintendent of Utilities	Scott Magnuson
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



CliftonLarsonAllen

CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

## INDEPENDENT AUDITORS' REPORT

Brainerd Public Utilities Commission  
Brainerd Public Utilities  
Brainerd, Minnesota

We have audited the accompanying financial statements of Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the years ended December 31, 2011 and 2010, 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.

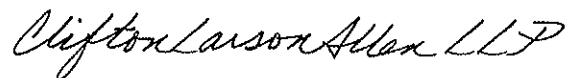
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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, 2011 and 2010, 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 May 1, 2012 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brainerd Public Utilities' basic financial statements. The combining financial statements and the schedule of utility plant and accumulated depreciation are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and the schedule of utility plant and accumulated depreciation are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other information has not been subjected to the auditing procedure applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 1, 2012



**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2011 AND 2010**

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, 2011 in comparison with the two prior year's 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 2011, 2010 and 2009 were \$82,985,297, \$86,589,382 and \$71,416,536, respectively. Total assets exceeded liabilities at the end of 2011, 2010 and 2009 by \$45,361,636, \$46,524,568 and \$42,264,205, respectively.
- Total assets at December 31, 2011 decreased \$3,604,085 from the prior year primarily due to a decrease in cash and investments and amount due from power provider.
- Total net assets decreased at the end of 2011 by \$1,162,932 and increased during 2010 and 2009 by \$4,260,363 and \$5,655,523, respectively.
- The changes in capital assets for the past three years and the events causing those increases are noted below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Additions and Transfers to Capital Assets Being Depreciated (By Department)			
Electric	\$ 1,105,216	\$ 1,775,540	\$ 3,040,539
Water	230,146	520,975	456,578
Water - Capital Contributions from City	-	35,175	115,579
Wastewater Treatment	11,587,523	18,284,011	177,745
General Plant	66,537	-	751,044
	<u>12,989,422</u>	<u>20,615,701</u>	<u>4,541,485</u>
Additions to Construction in Progress	2,109,917	11,220,999	16,300,082
Transfers from Construction in Progress to Capital Assets Being Depreciated	(12,237,102)	(18,343,546)	(2,479,195)
Deletions and Transfers	-	(193,163)	(700)
Normal Annual Depreciation	<u>(3,328,058)</u>	<u>(2,611,968)</u>	<u>(2,612,193)</u>
Total	<u>\$ (465,821)</u>	<u>\$ 10,688,023</u>	<u>\$ 15,749,479</u>

- Total long-term liabilities for 2011 decreased \$2,012,225 over the prior year primarily as a result of payments made on bonds and notes payable.

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2011 AND 2010**

**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 noncapital financing activities, 3) cash flows from capital and related financing activities, and 4) cash flows from investing activities. The *Statements of Cash Flows*, along with the related notes and information in other financial statements, can be useful in assessing the following:

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

The *Notes to the Financial Statements* provide 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 2011, 2010 and 2009 by \$45,361,636, \$46,524,568 and \$42,264,205, respectively.

The largest portion of BPU's net assets (60%), at December 31, 2011, 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, 2011 AND 2010**

**Financial Analysis (Continued)**

**Condensed Balance Sheets**

	December 31,			Change	
	2011	2010	2009	2011 to 2010	2010 to 2009
Net Capital Assets	\$ 58,321,572	\$ 58,787,393	\$ 48,099,370	\$ (465,821)	\$ 10,688,023
Restricted Assets	12,116,621	13,657,895	10,663,175	(1,541,274)	2,994,720
Current Assets	12,367,612	13,942,489	12,430,452	(1,574,877)	1,512,037
Other Assets	179,492	201,605	223,539	(22,113)	(21,934)
<b>Total Assets</b>	<b>\$ 82,985,297</b>	<b>\$ 86,589,382</b>	<b>\$ 71,416,536</b>	<b>\$ (3,604,085)</b>	<b>\$ 15,172,846</b>
Current Liabilities	\$ 4,710,281	\$ 5,139,209	\$ 5,303,639	\$ (428,928)	\$ (164,430)
Long-Term Liabilities	32,913,380	34,925,605	23,848,692	(2,012,225)	11,076,913
<b>Total Liabilities</b>	<b>37,623,661</b>	<b>40,064,814</b>	<b>29,152,331</b>	<b>(2,441,153)</b>	<b>10,912,483</b>
Invested in Utility Plant, Net of Related Debt	27,105,930	25,854,181	29,033,909	1,251,749	(3,179,728)
Restricted Net Assets	8,513,233	8,925,629	5,026,704	(412,396)	3,898,925
Unrestricted Net Assets	9,742,473	11,744,758	8,203,592	(2,002,285)	3,541,166
<b>Total Net Assets</b>	<b>45,361,636</b>	<b>46,524,568</b>	<b>42,264,205</b>	<b>(1,162,932)</b>	<b>4,260,363</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 82,985,297</b>	<b>\$ 86,589,382</b>	<b>\$ 71,416,536</b>	<b>\$ (3,604,085)</b>	<b>\$ 15,172,846</b>

For 2011, \$8,513,233 (19%) of BPU's net assets represents resources that are restricted. The remaining balance of unrestricted net assets of \$9,742,473 (21%) may be used to meet BPU ongoing obligations.

**Statement of Revenues, Expenses and Changes in Net Assets**

**2011**

Total operating revenues for 2011 increased \$1,188,829 (5.7%) from the prior year. Electric Department revenues increased \$1,082,087 primarily due to an increase in overall kWh sales of approximately 1.5%, Water Department revenues increased \$9,291 primarily due to rate adjustments made during the year, since overall water gallonage sold decreased 3.6% from prior year. Wastewater Treatment Department revenues increased \$97,451 primarily due to an increase of \$73,456 in commercial sales. Total operating expenses for 2011 increased \$2,839,966 (13.7%) from prior year. Of this amount, \$1,615,796 was due to higher purchased power costs and \$716,332 was due to higher depreciation expense.

Net nonoperating revenue for 2011 increased \$50,800 from the prior year. Of this amount, interest income from investments increased approximately \$49,600, interest income on notes receivable with City of Baxter related to the expansion of the wastewater treatment facility increased approximately \$3,700, interest expense on debt service increased approximately \$371,800, local option sales tax proceeds increased approximately \$19,600, federal grant revenue increased approximately \$88,100, and approximately \$105,000 of gains in disposal of transformers and wastewater treatment equipment.

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2011 AND 2010**

**Financial Analysis (Continued)**

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

**2010**

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

Net nonoperating revenue for 2010 increased \$25,980 from the 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, 2011 AND 2010**

**Financial Analysis (Continued)**

**Condensed Revenues, Expenses and Changes in Net Assets**

	For the Year Ended December 31,			Change	
	2011	2010	2009	2011 to 2010	2010 to 2009
<b>OPERATING REVENUES</b>					
Electric	\$ 17,829,513	\$ 16,747,426	\$ 16,280,132	\$ 1,082,087	\$ 467,294
Water	1,778,832	1,769,541	1,607,258	9,291	162,283
Wastewater Treatment	2,321,978	2,224,527	2,149,284	97,451	75,243
Total Operating Revenue	21,930,323	20,741,494	20,036,674	1,188,829	704,820
<b>OPERATING EXPENSES</b>					
Production and Treatment	1,482,611	1,047,720	1,004,391	434,891	43,329
Purchased Power	14,488,488	12,872,692	11,752,885	1,615,796	1,119,807
Distribution and Collection	2,216,504	2,059,258	2,064,280	157,246	(5,022)
Administration	1,996,685	2,080,984	2,021,310	(84,299)	59,674
Depreciation and Amortization	3,351,258	2,634,926	2,634,226	716,332	700
Total Operating Expenses	23,535,546	20,695,580	19,477,092	2,839,966	1,218,488
<b>OPERATING INCOME</b>	(1,605,223)	45,914	559,582	(1,651,137)	(513,668)
<b>NONOPERATING REVENUE (EXPENSE)</b>					
Interest Income - Investments	428,736	379,133	286,480	49,603	92,653
Interest Income - Notes Receivable	274,144	270,465	19,141	3,679	251,324
Interest Expense	(1,213,757)	(841,978)	(575,672)	(371,779)	(266,306)
Local Option Sales Tax	835,200	815,593	854,427	19,607	(38,834)
Federal Grant Revenue -					
Build America Bond	185,876	155,171	23,091	30,705	132,080
Other Grants	68,000	10,576	-	57,424	10,576
Gain (Loss) on Disposal of Capital Assets	105,348	(156,213)	(700)	261,561	(155,513)
Net Nonoperating Revenue	683,547	632,747	606,767	50,800	25,980
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS</b>	(921,676)	678,661	1,166,349	(1,600,337)	(487,688)
<b>CAPITAL CONTRIBUTIONS</b>	518,896	4,335,748	5,125,637	(3,816,852)	(789,889)
<b>TRANSFERS TO THE CITY</b>	(760,152)	(754,046)	(636,463)	(6,106)	(117,583)
<b>CHANGE IN NET ASSETS</b>	(1,162,932)	4,260,363	5,655,523	(5,423,295)	(1,395,160)
Net Assets - Beginning	46,524,568	42,264,205	36,608,682	4,260,363	5,655,523
<b>NET ASSETS - ENDING</b>	<u>\$ 45,361,636</u>	<u>\$ 46,524,568</u>	<u>\$ 42,264,205</u>	<u>\$ (1,162,932)</u>	<u>\$ 4,260,363</u>

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2011 AND 2010**

**Capital Assets**

Capital Assets – BPU's capital assets, as of December 31, 2011, 2010 and 2009, amounted to \$58,321,572, \$58,787,393 and \$48,099,370, respectively (net of accumulated depreciation). The following table summarizes capital assets, net of depreciation.

**Condensed Schedule of Capital Assets**

	December 31,			Change	
	2011	2010	2009	2011 to 2010	2010 to 2009
Electric Department					
Distribution System	\$ 15,714,542	\$ 15,625,548	\$ 15,076,941	\$ 88,994	\$ 548,607
Street and Security Lighting System	367,043	403,757	408,729	(36,714)	(4,972)
Water Department					
Production Facilities	1,159,141	1,194,153	1,150,942	(35,012)	43,211
Distribution System	6,911,225	7,073,500	6,979,014	(162,275)	94,486
Wastewater Treatment Department					
Lift Station Facilities	1,347,252	1,440,407	1,485,959	(93,155)	(45,552)
Treatment Facilities	28,710,297	18,621,430	1,218,956	10,088,867	17,402,474
Land and Land Improvements	1,455,358	1,469,126	1,499,685	(13,768)	(30,559)
Machinery and Equipment	369,467	454,544	520,009	(85,077)	(65,465)
Furniture and Fixtures	41,970	69,294	113,744	(27,324)	(44,450)
Transportation Equipment	407,003	369,384	322,122	37,619	47,262
Service Center	1,838,274	1,939,065	2,073,537	(100,791)	(134,472)
Construction in Progress	-	10,127,185	17,249,732	(10,127,185)	(7,122,547)
<b>Total</b>	<b>\$ 58,321,572</b>	<b>\$ 58,787,393</b>	<b>\$ 48,099,370</b>	<b>\$ (465,821)</b>	<b>\$ 10,688,023</b>

Major capital asset transactions for 2011 and 2010 include the following:

	2011	2010
<b><u>Electric</u></b>		
Distribution Transformers and Metering Purchased	\$ 304,200	\$ 512,100
Expansion of Distribution Feeder System	375,900	810,300
Distribution System Improvements	234,100	334,100
Aerial Device	114,700	85,800
<b><u>Water</u></b>		
Acquisition of Meters and Valves	79,700	144,900
Distribution System Improvements	150,400	376,100
Water System Contributed Capital from City	-	35,200
<b><u>Wastewater</u></b>		
Lift Station Improvements	5,800	51,400
Treatment Facility Improvements	1,393,200	1,753,100
Sludge Applicator	83,700	-
Tank Trailer	43,400	-
Side-by-Side Vehicle	11,000	-
<b><u>General Plant</u></b>		
Service Center Improvements	66,500	-
<b><u>Construction in Progress</u></b>		
Electric System Improvements Project	-	76,300
Wastewater Treatment Expansion Project	-	10,050,900

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2011 AND 2010**

**Debt Administration**

BPU entered into a capital lease agreement totaling \$250,000 during 2004. Payment terms for this agreement are \$25,000 annual payments for a ten year period commencing in 2004. The outstanding balance at December 31, 2011 was \$25,000. 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 BPU are issued on behalf of BPU by the City of Brainerd and are solely backed by a pledge of the 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 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 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 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 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, 2011 AND 2010**

**Budgetary Highlights**

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 BPU staff review budget results monthly and the budget is used as a financial management tool. A summary of the 2011 Operating Budget Analysis is presented as follows:

	2011 <u>Budget</u>	2011 <u>Actual</u>	Favorable (Unfavorable) <u>Variance</u>
Utility Operating Revenue	\$ 20,754,000	\$ 21,569,070	\$ 815,070
Other Operating Revenue	<u>305,000</u>	<u>361,253</u>	<u>56,253</u>
Total Operating Revenue	21,059,000	21,930,323	871,323
Purchased Power	13,365,000	14,488,488	(1,123,488)
Other Operating Expense	5,149,600	5,695,800	(546,200)
Depreciation and Amortization Expense	<u>3,123,400</u>	<u>3,351,258</u>	<u>(227,858)</u>
Total Operating Expense	<u>21,638,000</u>	<u>23,535,546</u>	<u>(1,897,546)</u>
Operating Income	(579,000)	(1,605,223)	(1,026,223)
Net Nonoperating Revenue	<u>199,000</u>	<u>683,547</u>	<u>484,547</u>
Income Before Capital Contributions from City and Operating Transfers to the City	(380,000)	(921,676)	(541,676)
Capital Contributions	-	518,896	518,896
Operating Transfers to the City	<u>(755,000)</u>	<u>(760,152)</u>	<u>(5,152)</u>
Change in Net Assets	<u>\$ (1,135,000)</u>	<u>\$ (1,162,932)</u>	<u>\$ (27,932)</u>



**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2011 AND 2010**

**Economic Factors and Next Year's Budget and Rates**

A summary of the 2012 Operating Budget approved by the Commission is presented as follows:

	2012 Budget
Utility Operating Revenue	\$ 21,255,000
Other Operating Revenue	303,000
Total Operating Revenue	21,558,000
Purchased Power	13,520,000
Other Operating Expense	5,501,000
Depreciation and Amortization Expense	3,289,000
Total Operating Expense	22,310,000
Operating Income	(752,000)
Net Nonoperating Revenue	356,000
Income Before Capital Contributions from City and Transfers to the City	(396,000)
Transfers to the City	(760,000)
Change in Net Assets	\$ (1,156,000)

BPU adjusted all utility rates effective January 1, 2011 and December 1, 2011. The primary reason for the adjustments is due to Minnesota Power, the wholesale power provider for BPU, raising its rates effective January 1, 2011, to wholesale municipal customers.

**Requests for Information**

This financial report is designed to provide a general overview of 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](mailto:twicklund@bpu.org) or by phone at (218)825-3220.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
BALANCE SHEETS  
DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
In Service	\$ 81,331,163	\$ 71,918,367
Construction in Progress	-	10,127,185
Total Investment in Utility Plant	81,331,163	82,045,552
Less: Accumulated Depreciation	(23,009,591)	(23,258,159)
Net Utility Plant	58,321,572	58,787,393
<b>RESTRICTED ASSETS</b>		
Cash and Investments	3,603,388	4,732,266
Notes Receivable	8,416,333	8,829,265
Notes Receivable - Interest	96,900	96,364
Total Restricted Assets	12,116,621	13,657,895
<b>CURRENT ASSETS</b>		
Cash and Investments	8,279,870	8,972,324
Accounts Receivable	2,714,026	2,368,052
Due from Power Supplier	25,714	1,367,493
Interest Receivable	59,282	74,705
Due from the City of Brainerd	110,422	89,763
Inventory	1,081,406	1,013,391
Prepaid Expenses	96,892	56,761
Total Current Assets	12,367,612	13,942,489
<b>OTHER ASSETS</b>		
Service Territory Acquisitions, Net of Accumulated Amortization	29,621	37,794
Deferred Charges	149,871	163,811
Total Other Assets	179,492	201,605
Total Assets	\$ 82,985,297	\$ 86,589,382

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
BALANCE SHEETS (CONTINUED)  
DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Utility Plant, Net of Related Debt	\$ 27,105,930	\$ 25,854,181
Restricted	8,513,233	8,925,629
Unrestricted	9,742,473	11,744,758
Total Net Assets	45,361,636	46,524,568
<b>LONG-TERM LIABILITIES</b>		
Electric Utility Revenue Bonds Payable	8,275,000	8,925,000
General Obligation Sewer Revenue Notes Payable	1,037,000	1,231,000
General Obligation Build America Bonds Payable	22,936,000	24,018,000
Compensated Absences	618,247	665,666
Other Postemployment Benefit Obligation	47,133	35,939
Capital Lease Payable	-	50,000
Total Long-Term Liabilities	32,913,380	34,925,605
<b>CURRENT LIABILITIES</b>		
Accounts Payable	1,480,853	1,480,829
Electric Utility Revenue Bonds Payable	650,000	620,000
General Obligation Sewer Revenue Notes Payable	194,000	190,000
General Obligation Build America Bonds Payable	1,082,000	1,048,788
Capital Lease Payable	25,000	25,000
Payable to City of Brainerd	153,994	413,544
Accrued Expenses		
Salaries and Withholding Taxes	261,145	232,403
Sales Taxes	70,324	64,606
Current Liabilities Payable from Restricted Assets:		
Bond Interest	321,912	322,617
Conservation Incentive Program Payable	244,154	537,269
Customer Deposits	226,899	204,153
Total Current Liabilities	4,710,281	5,139,209
Total Liabilities	37,623,661	40,064,814
Total Liabilities and Net Assets	\$ 82,985,297	\$ 86,589,382

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

<b>OPERATING REVENUES</b>	2011	2010
Utility Revenues		
Residential	\$ 6,386,247	\$ 6,139,906
Commercial	7,108,568	6,663,761
Large Commercial	4,402,692	4,351,528
Industrial	2,608,767	2,386,307
City of Brainerd	450,394	423,188
Internal Use	612,402	431,474
Total Utility Revenues	21,569,070	20,396,164
Other Operating Revenues		
Penalties	119,822	122,968
Other	241,431	222,362
Total Other Operating Revenues	361,253	345,330
Total Operating Revenues	21,930,323	20,741,494
<b>OPERATING EXPENSES</b>		
Production and Treatment		
Salaries and Wages	521,890	440,693
Purchased Services	644,962	363,925
Supplies and Maintenance	140,824	102,519
Employee Benefits	160,096	128,379
Other Charges	14,839	12,204
Total Production Expenses	1,482,611	1,047,720
Purchased Power	14,488,488	12,872,692
Distribution and Collection		
Salaries and Wages	1,026,474	1,031,943
Purchased Services	527,334	403,092
Supplies and Maintenance	203,607	174,377
Employee Benefits	405,837	413,828
Other Charges	53,252	36,018
Total Distribution and Collection Expenses	2,216,504	2,059,258
Administration		
Salaries and Wages	962,573	1,015,189
Purchased Services	256,641	258,420
Supplies and Maintenance	73,703	75,601
Insurance and Bonds	127,358	149,162
Employee Benefits	370,645	349,492
Other Charges	205,765	233,120
Total Administration Expenses	1,996,685	2,080,984
Depreciation and Amortization	3,351,258	2,634,926
Total Operating Expenses	\$ 23,535,546	\$ 20,695,580

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING INCOME (LOSS)</b>	\$ (1,605,223)	\$ 45,914
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Interest Income - Investments	428,736	379,133
Interest Income - Notes Receivable	274,144	270,465
Interest Expense	(1,213,757)	(841,978)
Local Option Sales Tax	835,200	815,593
Federal Grant Revenue - Build America Bond	185,876	155,171
Other Grant Revenue	68,000	10,576
Gain (Loss) on Disposal of Capital Assets	105,348	(156,213)
Net Nonoperating Revenue	<u>683,547</u>	<u>632,747</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS</b>	(921,676)	678,661
<b>CAPITAL CONTRIBUTIONS</b>	518,896	4,335,748
<b>TRANSFERS TO THE CITY</b>	<u>(760,152)</u>	<u>(754,046)</u>
<b>CHANGE IN NET ASSETS</b>	(1,162,932)	4,260,363
Net Assets - Beginning	<u>46,524,568</u>	<u>42,264,205</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 45,361,636</u>	<u>\$ 46,524,568</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 22,671,163	\$ 19,402,501
Cash Payments to Employees for Services	(2,529,614)	(2,414,489)
Cash Payments to Other Suppliers of Goods or Services	(17,672,795)	(16,488,780)
Net Cash Provided by Operating Activities	2,468,754	499,232
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer to Primary Government	(1,019,702)	(606,919)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to Utility Plant	(2,397,154)	(13,476,580)
Proceeds from Issuance of Bonds and Notes	-	12,901,713
Proceeds from Local Option Sales Tax	794,448	834,500
Principal Paid on Long-Term Debt	(1,858,788)	(1,681,000)
Interest Paid on Long-Term Debt	(1,214,462)	(666,970)
Payments on Capital Lease	(50,000)	(25,000)
Principal Received on Notes Receivable	412,932	362,000
Federal Grant Revenue - Build America Bond	184,129	113,509
Proceeds from Sale of Utility Plant	63,348	36,950
Net Cash Used by Capital and Related Financing Activities	(4,065,547)	(1,600,878)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	717,767	532,074
Purchase of Investments	(6,550,000)	(6,360,274)
Redemption of Investments	7,910,000	7,518,414
Net Cash Provided by Investing Activities	2,077,767	1,690,214
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(538,728)	(18,351)
Cash and Cash Equivalents - Beginning	6,342,543	6,360,894
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 5,803,815	\$ 6,342,543

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ (1,605,223)	\$ 45,914
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	3,351,258	2,634,926
Revenue Reduced for Uncollectible Accounts	59,236	32,961
(Increase) Decrease in Assets:		
Accounts Receivable	(336,288)	(55,127)
Due from Power Supplier	1,341,779	(1,367,493)
Prepaid Expenses	(40,131)	12,020
Inventories	(68,015)	(198,045)
Increase (Decrease) in Liabilities:		
Accounts Payable	38,272	(776,838)
Accrued Liabilities	57,206	27,850
Conservation Incentive Program Payable	(293,115)	84,076
Accrued Compensated Absences	(47,419)	45,037
Other Postemployment Benefit Obligation	11,194	13,951
Net Cash Provided by Operating Activities	\$ 2,468,754	\$ 499,232
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS</b>		
Cash and Investments - Current Assets	\$ 8,279,870	\$ 8,972,324
Cash and Investments - Restricted Assets	3,603,388	4,732,266
Cash and Investments - Balance Sheets	11,883,258	13,704,590
Less: Investments not Meeting the Definition of Cash Equivalents	6,079,443	7,362,047
Cash and Cash Equivalents - Ending	\$ 5,803,815	\$ 6,342,543
<b>NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Contribution of Utility Plant from Primary Government	\$ -	\$ 35,175
Contribution of Notes Receivable	-	4,300,573
Purchase of Utility Plant on Account	(38,008)	(9,606)
Net Increase (Decrease) in Fair Value of Investments	77,396	14,826



**THIS PAGE INTENTIONALLY LEFT BLANK**

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**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 BPU. The Electric, Water and Wastewater Treatment Departments are treated as a single enterprise fund. 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***

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 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 BPU as a component unit of the City. There are no component units of 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, 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, 2011 AND 2010**

**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 for the years ended December 31, 2011 and 2010 was \$1,213,757 and \$1,114,750, respectively, and the amount capitalized for the same time periods was \$0 and \$272,771, respectively.

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, 2011 AND 2010**

**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, 2011 and 2010 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 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. BPU maintains one retirement payment plan for its employee group. 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, 2011 AND 2010**

**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. 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Electric	\$ 26,869,710	\$ 26,505,721
Water	14,366,245	14,219,023
Wastewater Treatment	34,387,534	25,414,454
General Plant	<u>5,707,674</u>	<u>5,779,169</u>
Total Utility Plant in Service	<u>\$ 81,331,163</u>	<u>\$ 71,918,367</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 2 UTILITY PLANT IN SERVICE (CONTINUED)**

A summary of utility plant activity for the year ended December 31, 2011 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Electric	\$ 26,505,721	\$ 1,105,216	\$ 741,227	\$ 26,869,710
Water	14,219,023	230,146	82,924	14,366,245
Wastewater Treatment	25,414,454	11,587,523	2,614,443	34,387,534
General Plant	5,779,169	66,537	138,032	5,707,674
Construction in Progress	10,127,185	2,109,917	12,237,102	-
	<u>82,045,552</u>	<u>15,099,339</u>	<u>15,813,728</u>	<u>81,331,163</u>
Accumulated Depreciation	(23,258,159)	(3,328,058)	(3,576,626)	(23,009,591)
Net Utility Plant	<u>\$ 58,787,393</u>	<u>\$ 11,771,281</u>	<u>\$ 12,237,102</u>	<u>\$ 58,321,572</u>

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	(27,054,839)	(2,611,968)	(6,408,648)	(23,258,159)
Net Utility Plant	<u>\$ 48,099,370</u>	<u>\$ 29,224,732</u>	<u>\$ 18,536,709</u>	<u>\$ 58,787,393</u>

Capital assets not being depreciated totaled \$1,286,087 and \$11,413,272 at December 31, 2011 and 2010, respectively.

**NOTE 3 RESTRICTED ASSETS**

**Cash and Investments**

At December 31, 2011 and 2010, restricted cash and investments consisted of the following:

	2011	2010
Customer Deposits	\$ 226,899	\$ 204,153
City of Brainerd Contribution	148,976	153,664
Conservation Incentive Program	244,154	537,269
Electric Utility Revenue Bonds Construction Reserve	-	662,604
Electric Utility Revenue Bonds Debt Service Reserve	1,369,236	1,231,762
General Obligation Revenue Notes and Bonds Debt Service Reserve	1,614,123	1,942,814
Total Restricted Cash and Investments	<u>\$ 3,603,388</u>	<u>\$ 4,732,266</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, 2011 AND 2010**

**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, 2011 and 2010 of \$8,513,233 and \$8,925,629, respectively, represents the amount of receivable from the City of Baxter as discussed below.

**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 (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 BPU 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 BPU. 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 BPU. 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 BPU loan agreements with PFA (See Note 7). The obligation of Baxter to make scheduled payments to BPU pursuant to the Baxter Notes is absolute and unqualified.

Note receivable activity for the year ended December 31, 2011 is as follows:

	<u>Note No.1</u>	<u>Note No.2</u>	<u>Total</u>
Beginning Balance	\$ 473,667	\$8,355,598	\$8,829,265
Payments Received	(63,334)	(349,598)	(412,932)
Ending Balance	<u>\$ 410,333</u>	<u>\$8,006,000</u>	<u>\$8,416,333</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 3 RESTRICTED ASSETS (CONTINUED)**

**Notes Receivable (Continued)**

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, 2011 and 2010 of \$96,900 and \$96,364, respectively, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the years ended December 31, 2011 and 2010 was \$274,144 and \$270,465, respectively.

**NOTE 4 DEPOSITS AND INVESTMENTS**

Cash and investments are presented at December 31, 2011 and 2010, as follows:

	<u>2011</u>	<u>2010</u>
Restricted Cash and Investments	\$ 3,603,388	\$ 4,732,266
Current Cash and Investments	8,279,870	8,972,324
Total	<u>\$ 11,883,258</u>	<u>\$ 13,704,590</u>

Cash and investments at December 31, 2011 and 2010, consisted of the following:

	<u>2011</u>	<u>2010</u>
Petty Cash	\$ 1,500	\$ 1,500
Deposits	4,845,318	4,052,328
Investments	7,036,440	9,650,762
Total	<u>\$ 11,883,258</u>	<u>\$ 13,704,590</u>

***Deposits***

In accordance with *Minnesota Statutes*, BPU maintains deposits at financial institutions that are authorized by Brainerd Public Utilities 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, 2011 there were no deposits subject to custodial credit risk.



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

***Deposits (Continued)***

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 1, 2011 and in accordance with *Minnesota Statutes*, 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;
- 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.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Risk Disclosures (Continued)**

***Interest Rate Risk (Continued)***

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, 2011 by maturity:

Investment Type	Investment Maturities (in Years)			Fair Value
	Less Than 1	1-5	6-10	
December 31, 2011				
FHLB	\$ -	\$ -	\$ 400,876	\$ 400,876
FHLMC	-	-	4,212,973	4,212,973
FNMA	-	-	400,594	400,594
CP-Mitsui & Co. Repurchase Agreement	1,065,000 956,997	-	-	1,065,000 956,997
Total	<u>\$ 2,021,997</u>	<u>\$ -</u>	<u>\$ 5,014,443</u>	<u>\$ 7,036,440</u>

The repurchase agreement investment as of December 31, 2011 represents an ongoing overnight repurchase agreement arrangement at applicable daily quoted rates. The rate at December 31, 2011 was 0.1 percent. Funds are re-deposited to BPU's bank account at 8:00 a.m. 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. 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, 2011 are as follows:

Investment Type	S & P Rating	% of Investments
December 31, 2011		
FHLB	AAA	5.7%
FHLMC	AAA	59.9%
FNMA	AAA	5.7%
CP-Mitsui & Co. Repurchase Agreement	A1 Not Rated	15.1% 13.6%
Total		<u>100.0%</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Risk Disclosures (Continued)**

***Concentration of Credit Risk***

The investment policy of 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, 2011, 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. BPU does not have a policy for custodial credit risk over investments.

As of December 31, 2011, BPU has a custodial credit risk of \$956,997 because the repurchase agreement investment is uninsured, unregistered and held by BPU's primary bank which is also the counterparty for the repurchase agreement.

**NOTE 5 PAYABLE TO CITY OF BRAINERD**

BPU acts as a collection agent for wastewater collection and storm sewer charges billed by the City. 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, 2011 and 2010, BPU owed the City the following:

	<u>2011</u>	<u>2010</u>
Monthly Operating Contribution	\$ 70,095	\$ 65,729
Water System Improvement Projects	-	259,880
Wastewater Collection and Storm Sewer Charges	83,899	87,935
Total	<u>\$ 153,994</u>	<u>\$ 413,544</u>

**NOTE 6 CAPITAL LEASE PAYABLE**

On June 29, 2004, 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, 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 BPU and ISD No. 181. Capital assets recorded under capital leases total \$250,000 at both December 31, 2011 and 2010, with related accumulated depreciation of \$86,314 and \$73,035, respectively. Depreciation expense related to this asset for the years ended December 31, 2011 and 2010 was \$13,279 and \$13,279, respectively.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 6 CAPITAL LEASE PAYABLE (CONTINUED)**

Capital lease activity for the year ended December 31, 2011 was as follows:

Beginning Balance	\$ 75,000
Reductions	(50,000)
Ending Balance	<u>\$ 25,000</u>

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

Year Ended December 31, <u>2012</u>	<u>\$ 25,000</u>
---	------------------

**NOTE 7 LONG-TERM DEBT**

Long-term debt consists of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
<b><i>Electric Utility Revenue Bonds</i></b>		
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.	\$ 8,925,000	\$ 9,545,000
<b><i>General Obligation Sewer Revenue Notes</i></b>		
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.	1,231,000	1,421,000
<b><i>General Obligation Build America Bonds</i></b>		
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.	<u>24,018,000</u>	<u>25,066,788</u>
Total Debt	34,174,000	36,032,788
<u>Less Amount Due Within One Year</u>		
Electric Utility Revenue Bonds	650,000	620,000
General Obligation Sewer Revenue Notes	194,000	190,000
General Obligation Build America Bonds	<u>1,082,000</u>	<u>1,048,788</u>
Net Long-Term Debt	<u>\$ 32,248,000</u>	<u>\$ 34,174,000</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

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 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.

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 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
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	775,000	258,238	1,033,238
2017-2021	4,380,000	794,400	5,174,400
2022	1,005,000	43,969	1,048,969
Total	<u>\$ 8,925,000</u>	<u>\$ 2,411,759</u>	<u>\$ 11,336,759</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

Year Ending December 31,	General Obligation Sewer Revenue Notes		
	Principal	Interest	Total
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	212,000	9,567	221,567
2017	217,000	4,839	221,839
Total	<u>\$ 1,231,000</u>	<u>\$ 97,875</u>	<u>\$ 1,328,875</u>

Year Ending December 31,	General Obligation Build America Bonds		
	Principal	Interest	Total
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	1,229,000	629,659	1,858,659
2017-2021	6,768,000	2,525,911	9,293,911
2022-2026	7,935,000	1,358,765	9,293,765
2027-2028	3,544,000	172,772	3,716,772
Total	<u>\$ 24,018,000</u>	<u>\$ 7,578,670</u>	<u>\$ 31,596,670</u>

Electric Utility Revenue Bonds

The resolutions authorizing the issuance of electric utility revenue bonds contain various covenants, reserve fund requirements, and obligations to 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 are made 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 to 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 \$1,614,123. The interest payments are made semi-annually on February 20 and August 20, and principal payments are made on August 20.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

Long-term debt activity for the year ended December 31, 2011, is as follows:

	Electric Utility Revenue Bonds	G.O. Sewer Revenue Notes	G.O. Build America Bonds
Beginning Balance	\$ 9,545,000	\$ 1,421,000	\$ 25,066,788
Additions	-	-	-
Retirements	(620,000)	(190,000)	(1,048,788)
Ending Balance	<u>\$ 8,925,000</u>	<u>\$ 1,231,000</u>	<u>\$ 24,018,000</u>

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>

**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.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**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](http://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.

Funding Policy

Coordinated Plan members are required to contribute 6.25% of the annual covered salary and BPU is required to contribute at an actuarially determined rate which was 7.25% for 2011. The contribution requirements of the plan members and BPU are established and may be amended by state statute. BPU's contributions to GERF for the years ending December 31, 2011, 2010, and 2009 were \$195,862, \$188,914, and \$181,202, 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, 2011, there were five 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.



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

***Annual OPEB Cost and Net OPEB Obligation (Continued)***

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, 2011 and 2010:

	2011	2010
Annual Required Contribution (ARC)	\$ 42,765	\$ 42,765
Interest on Net OPEB Obligation	1,617	989
Adjustment to ARC	(2,180)	(1,321)
Annual OPEB Cost	42,202	42,433
Contributions During the Year	31,008	28,482
Increase in Net Pension Obligation	11,194	13,951
Net Pension Obligation - Beginning of Year	35,939	21,988
Net Pension Obligation - End of Year	<u>\$ 47,133</u>	<u>\$ 35,939</u>
Percentage Contributed	<u>73%</u>	<u>67%</u>

BPU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011, 2010, and 2009 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2011	\$ 42,202	\$ 31,008	73.0 %	\$ 47,133
December 31, 2010	42,433	28,482	67.0	35,939
December 31, 2009	42,765	20,777	49.0	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)
1/1/2009	\$ -	\$ 438,939	\$ 438,939	- %	\$ 2,734,574	16.0 %

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

***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, 2011 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.

**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 BPU's 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 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 Brainerd Public Utilities 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 Brainerd Public Utilities 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.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**NOTE 12 MAJOR CUSTOMER**

During the years ended December 31, 2011 and 2010, net sales to one industrial customer totaled \$2,608,767 and \$2,386,307, representing 12.1% and 11.7% of total utility revenue, respectively. A concentration of BPU's accounts receivable from this one industrial customer at December 31, 2011 and 2010, consisted of approximately 9% and 5%, respectively.

**NOTE 13 COMMITMENTS**

Power Contract

BPU is obligated to purchase all of its wholesale power requirements from Minnesota Power and Light Company through June 30, 2019.

## REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES  
 BRAINERD, MINNESOTA  
 SCHEDULE OF FUNDING PROGRESS OTHER POSTEMPLOYMENT BENEFIT PLAN  
 YEAR ENDED DECEMBER 31, 2011**

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)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009	\$ -	\$ 438,939	\$ 438,939	-	\$ 2,734,574	16.0 %

## **SUPPLEMENTARY INFORMATION**

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING BALANCE SHEETS BY DEPARTMENT  
DECEMBER 31, 2011  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2010)**

ASSETS	ELECTRIC	WATER	WASTEWATER TREATMENT
<b>UTILITY PLANT</b>			
Construction in Progress	\$ -	\$ -	\$ -
In Service	29,876,390	15,523,868	35,930,905
Total Investment in Utility Plant	29,876,390	15,523,868	35,930,905
Less: Accumulated Depreciation	(11,743,337)	(6,865,625)	(4,400,629)
Net Utility Plant	18,133,053	8,658,243	31,530,276
<b>RESTRICTED ASSETS</b>			
Cash and Investments			
Customer Deposits	226,899	-	-
City of Brainerd Contribution	63,769	-	85,207
Conservation Incentive Program	244,154	-	-
Construction Reserve	-	-	-
Debt Service Reserve	1,369,236	-	1,614,123
Total Restricted Cash and Investments	1,904,058	-	1,699,330
Notes Receivable	-	-	8,416,333
Notes Receivable - Interest	-	-	96,900
Total Restricted Assets	1,904,058	-	10,212,563
<b>CURRENT ASSETS</b>			
Cash and Investments	4,268,397	244,956	3,766,517
Accounts Receivable	2,026,325	198,929	488,772
Due from Power Supplier	25,714	-	-
Interest Receivable	59,282	-	-
Due from the City of Brainerd	29,612	4,747	76,063
Inventory	1,009,134	72,272	-
Prepaid Expenses	94,797	-	2,095
Total Current Assets	7,513,261	520,904	4,333,447
<b>OTHER ASSETS</b>			
Service Territory Acquisitions, Net of			
Accumulated Amortization	29,621	-	-
Deferred Charges	119,065	-	30,806
Total Other Assets	148,686	-	30,806
Total Assets	\$ 27,699,058	\$ 9,179,147	\$ 46,107,092

TOTALS

2011	2010
\$ -	\$ 10,127,185
81,331,163	71,918,367
81,331,163	82,045,552
(23,009,591)	(23,258,159)
58,321,572	58,787,393
226,899	204,153
148,976	153,664
244,154	537,269
-	662,604
2,983,359	3,174,576
3,603,388	4,732,266
8,416,333	8,829,265
96,900	96,364
12,116,621	13,657,895
8,279,870	8,972,324
2,714,026	2,368,052
25,714	1,367,493
59,282	74,705
110,422	89,763
1,081,406	1,013,391
96,892	56,761
12,367,612	13,942,489
29,621	37,794
149,871	163,811
179,492	201,605
\$ 82,985,297	\$ 86,589,382



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING BALANCE SHEETS BY DEPARTMENT (CONTINUED)  
DECEMBER 31, 2011  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2010)**

LIABILITIES AND NET ASSETS	ELECTRIC	WATER	WASTEWATER TREATMENT
<b>NET ASSETS</b>			
Invested in Utility Plant, Net of Related Debt	\$ 10,568,956	\$ 8,649,910	\$ 7,887,064
Restricted	32,357	-	8,480,876
Unrestricted	5,624,764	232,641	3,885,068
Total Net Assets	<u>16,226,077</u>	<u>8,882,551</u>	<u>20,253,008</u>
<b>LONG-TERM LIABILITIES</b>			
Electric Utility Revenue Bonds Payable	8,275,000	-	-
General Obligation Sewer Revenue Notes Payable	-	-	1,037,000
General Obligation Build America Bonds Payable	-	-	22,936,000
Compensated Absences	319,388	181,495	117,364
Other Postemployment Benefit Obligation	30,960	9,508	6,665
Capital Lease Payable	-	-	-
Total Long-Term Liabilities	<u>8,625,348</u>	<u>191,003</u>	<u>24,097,029</u>
<b>CURRENT LIABILITIES</b>			
Accounts Payable	1,412,958	24,064	43,831
Electric Utility Revenue Bonds Payable	650,000	-	-
General Obligation Sewer Revenue Notes Payable	-	-	194,000
General Obligation Build America Bonds Payable	-	-	1,082,000
Capital Lease Payable	8,333	8,333	8,334
Payable to City of Brainerd	70,095	-	83,899
Accrued Expenses			
Salaries and Withholding Taxes	135,666	71,042	54,437
Sales Taxes	68,116	2,154	54
Current Liabilities Payable from Restricted Assets:			
Bond Interest	31,412	-	290,500
Conservation Incentive Program Payable	244,154	-	-
Customer Deposits	226,899	-	-
Total Current Liabilities	<u>2,847,633</u>	<u>105,593</u>	<u>1,757,055</u>
Total Liabilities	<u>11,472,981</u>	<u>296,596</u>	<u>25,854,084</u>
Total Liabilities and Net Assets	<u>\$ 27,699,058</u>	<u>\$ 9,179,147</u>	<u>\$ 46,107,092</u>

TOTALS

2011	2010
\$ 27,105,930	\$ 25,854,181
8,513,233	8,925,629
9,742,473	11,744,758
<u>45,361,636</u>	<u>46,524,568</u>
8,275,000	8,925,000
1,037,000	1,231,000
22,936,000	24,018,000
618,247	665,666
47,133	35,939
-	50,000
<u>32,913,380</u>	<u>34,925,605</u>
1,480,853	1,480,829
650,000	620,000
194,000	190,000
1,082,000	1,048,788
25,000	25,000
153,994	413,544
261,145	232,403
70,324	64,606
321,912	322,617
244,154	537,269
226,899	204,153
<u>4,710,281</u>	<u>5,139,209</u>
<u>37,623,661</u>	<u>40,064,814</u>
<u>\$ 82,985,297</u>	<u>\$ 86,589,382</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
BY DEPARTMENT  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2010)**

	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER TREATMENT</u>
<b>OPERATING REVENUES</b>			
Utility Revenues			
Residential	\$ 4,352,644	\$ 825,831	\$ 1,207,772
Commercial	5,260,400	808,707	1,039,461
Large Commercial	4,402,692	-	-
Industrial	2,608,767	-	-
City of Brainerd	373,955	66,138	10,301
Internal Use	560,649	51,426	327
Total Utility Revenues	<u>17,559,107</u>	<u>1,752,102</u>	<u>2,257,861</u>
Other Operating Revenues			
Penalties	85,619	12,668	21,535
Other	184,787	14,062	42,582
Total Other Operating Revenues	<u>270,406</u>	<u>26,730</u>	<u>64,117</u>
Total Operating Revenues	17,829,513	1,778,832	2,321,978
<b>OPERATING EXPENSES</b>			
Production and Treatment			
Salaries and Wages	-	230,771	291,119
Purchased Services	-	106,151	538,811
Supplies and Maintenance	-	54,807	86,017
Employee Benefits	-	71,511	88,585
Other Charges	-	2,891	11,948
Total Production Expenses	<u>-</u>	<u>466,131</u>	<u>1,016,480</u>
Purchased Power	14,488,488	-	-
Distribution and Collection			
Salaries and Wages	727,607	203,756	95,111
Purchased Services	264,138	101,756	161,440
Supplies and Maintenance	122,029	61,063	20,515
Employee Benefits	294,826	77,727	33,284
Other Charges	11,869	8,236	33,147
Total Distribution and Collection Expenses	<u>1,420,469</u>	<u>452,538</u>	<u>343,497</u>

TOTALS

2011	2010
\$ 6,386,247	\$ 6,139,906
7,108,568	6,663,761
4,402,692	4,351,528
2,608,767	2,386,307
450,394	423,188
612,402	431,474
21,569,070	20,396,164
119,822	122,968
241,431	222,362
361,253	345,330
21,930,323	20,741,494
521,890	440,693
644,962	363,925
140,824	102,519
160,096	128,379
14,839	12,204
1,482,611	1,047,720
14,488,488	12,872,692
1,026,474	1,031,943
527,334	403,092
203,607	174,377
405,837	413,828
53,252	36,018
2,216,504	2,059,258

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
BY DEPARTMENT (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2010)**

	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER TREATMENT</u>
<b>OPERATING EXPENSES (CONTINUED)</b>			
Administration			
Salaries and Wages	\$ 538,654	\$ 218,213	\$ 205,706
Purchased Services	156,004	59,898	40,739
Supplies and Maintenance	48,655	13,841	11,207
Insurance and Bonds	55,804	36,198	35,356
Employee Benefits	214,236	81,021	75,388
Other Charges	154,984	24,119	26,662
Total Administration Expenses	<u>1,168,337</u>	<u>433,290</u>	<u>395,058</u>
Depreciation and Amortization	<u>1,211,698</u>	<u>493,230</u>	<u>1,646,330</u>
Total Operating Expenses	<u>18,288,992</u>	<u>1,845,189</u>	<u>3,401,365</u>
<b>OPERATING INCOME (LOSS)</b>	(459,479)	(66,357)	(1,079,387)
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest Income - Investments	323,746	78	104,912
Interest Income - Notes Receivable	-	-	274,144
Interest Expense	(391,526)	-	(822,231)
Local Option Sales Tax	-	-	835,200
Federal Grant Revenue - Build America Bond	-	-	185,876
Other Grant Revenue	34,958	-	33,042
Gain (Loss) on Disposal of Capital Assets	<u>35,748</u>	<u>2,700</u>	<u>66,900</u>
Net Nonoperating Revenue (Expense)	<u>2,926</u>	<u>2,778</u>	<u>677,843</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	(456,553)	(63,579)	(401,544)
<b>CAPITAL CONTRIBUTIONS</b>	-	-	518,896
<b>TRANSFERS TO THE CITY</b>	<u>(760,152)</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (1,216,705)</u>	<u>\$ (63,579)</u>	<u>\$ 117,352</u>

TOTALS

2011	2010
\$ 962,573	\$ 1,015,189
256,641	258,420
73,703	75,601
127,358	149,162
370,645	349,492
205,765	233,120
<u>1,996,685</u>	<u>2,080,984</u>
<u>3,351,258</u>	<u>2,634,926</u>
<u>23,535,546</u>	<u>20,695,580</u>
(1,605,223)	45,914
428,736	379,133
274,144	270,465
(1,213,757)	(841,978)
835,200	815,593
185,876	155,171
68,000	10,576
105,348	(156,213)
<u>683,547</u>	<u>632,747</u>
(921,676)	678,661
518,896	4,335,748
(760,152)	(754,046)
<u>\$ (1,162,932)</u>	<u>\$ 4,260,363</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
SCHEDULE OF UTILITY PLANT AND ACCUMULATED DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Cost			
	12/31/2010	Additions	Deductions	12/31/2011
<b>Electric Department</b>				
<u>Distribution</u>				
Land and Land Improvements	\$ 169,200	\$ -	\$ -	\$ 169,200
Distribution System	23,903,231	990,499	660,163	24,233,567
Street and Security Lighting System	581,408	-	18,098	563,310
Machinery and Equipment	703,198	-	58,063	645,135
Transportation Equipment	1,148,684	114,717	4,903	1,258,498
Total Electric Department	26,505,721	1,105,216	741,227	26,869,710
<b>Water Department</b>				
<u>Production</u>				
Structures and Improvements	1,694,913	-	6,558	1,688,355
Wells, Pumps and Accessories	421,209	-	-	421,209
Water Treatment Plant Equipment	1,284,433	79,737	23,607	1,340,563
Total Production	3,400,555	79,737	30,165	3,450,127
<u>Distribution</u>				
Distribution System	10,311,974	150,409	-	10,462,383
Machinery and Equipment	278,177	-	27,962	250,215
Transportation Equipment	228,317	-	24,797	203,520
Total Water Distribution	10,818,468	150,409	52,759	10,916,118
Total Water Department	14,219,023	230,146	82,924	14,366,245
<b>Wastewater Treatment Department</b>				
Land and Land Improvements	35,485	-	-	35,485
Collection System	3,772,616	5,807	80,551	3,697,872
Treatment Facility	21,128,161	11,570,671	2,520,520	30,178,312
Machinery and Equipment	349,654	11,045	8,949	351,750
Transportation Equipment	128,538	-	4,423	124,115
Total Wastewater Treatment Department	25,414,454	11,587,523	2,614,443	34,387,534
<b>General Plant</b>				
Land and Land Improvements	1,601,846	17,674	66,616	1,552,904
Service Center	3,558,390	35,300	-	3,593,690
Furniture and Fixtures	436,806	13,563	67,862	382,507
Transportation Equipment	114,623	-	1,850	112,773
Storage Building	67,504	-	1,704	65,800
Total General Plant	5,779,169	66,537	138,032	5,707,674
Total Utility Plant in Service	71,918,367	12,989,422	3,576,626	81,331,163
Construction Work in Progress	10,127,185	2,109,917	12,237,102	-
Total Investment in Utility Plant	<u>\$ 82,045,552</u>	<u>\$ 15,099,339</u>	<u>\$ 15,813,728</u>	<u>\$ 81,331,163</u>

Composite Depreciation Rates	Accumulated Depreciation				Percent of Plant Balance
	12/31/2010	Additions	Deductions	12/31/2011	
0.0%	\$ -	\$ -	\$ -	\$ -	0.0%
3.7%	8,277,683	901,505	660,163	8,519,025	35.2%
6.5%	177,651	36,714	18,098	196,267	34.8%
8.5%	486,218	54,718	58,063	482,873	74.8%
5.2%	795,161	65,933	4,903	856,191	68.0%
3.9%	9,736,713	1,058,870	741,227	10,054,356	37.4%
1.9%	1,487,249	31,298	6,558	1,511,989	89.6%
2.9%	332,052	12,317	-	344,369	81.8%
5.3%	387,101	71,134	23,607	434,628	32.4%
3.3%	2,206,402	114,749	30,165	2,290,986	66.4%
3.0%	3,238,474	312,684	-	3,551,158	33.9%
5.0%	190,590	12,526	27,962	175,154	70.0%
3.2%	218,585	6,569	24,797	200,357	98.4%
3.0%	3,647,649	331,779	52,759	3,926,669	36.0%
3.1%	5,854,051	446,528	82,924	6,217,655	43.3%
-	-	-	-	-	0.0%
2.7%	2,332,209	98,962	80,551	2,350,620	63.6%
4.9%	2,506,731	1,481,804	2,520,520	1,468,015	4.9%
8.2%	199,677	28,878	8,949	219,606	62.4%
3.7%	122,409	4,596	4,423	122,582	98.8%
4.7%	5,161,026	1,614,240	2,614,443	4,160,823	12.1%
2.0%	337,405	31,442	66,616	302,231	19.5%
3.7%	1,642,081	132,801	-	1,774,882	49.4%
10.7%	367,512	40,887	67,862	340,537	89.0%
0.0%	114,623	-	1,850	112,773	100.0%
5.0%	44,748	3,290	1,704	46,334	70.4%
3.7%	2,506,369	208,420	138,032	2,576,757	45.1%
4.1%	23,258,159	3,328,058	3,576,626	23,009,591	28.3%
-	-	-	-	-	-
4.1%	<u>\$ 23,258,159</u>	<u>\$ 3,328,058</u>	<u>\$ 3,576,626</u>	<u>\$ 23,009,591</u>	28.3%



**THIS PAGE INTENTIONALLY LEFT BLANK**

## OTHER INFORMATION

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
ELECTRIC DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2002 THROUGH 2011  
(UNAUDITED)**

	2002	2003	2004	2005	2006	2007
<b>Electric Plant</b>						
In Service (Thousands)	\$ 15,870	\$ 16,622	\$ 16,890	\$ 18,371	\$ 19,402	\$ 20,851
Investment Per Meter	\$ 2,224	\$ 2,311	\$ 2,278	\$ 2,412	\$ 2,512	\$ 2,698
Investment Per Dollar of Electric Revenue	\$ 1.58	\$ 1.38	\$ 1.37	\$ 1.30	\$ 1.29	\$ 1.22
<b>Accumulated Depreciation (Thousands)</b>	\$ 8,056	\$ 8,576	\$ 8,207	\$ 8,818	\$ 9,582	\$ 10,241
Percent of Plant	50.8%	51.6%	48.6%	48.0%	49.4%	49.1%
Annual Depreciation (Thousands)	\$ 723	\$ 717	\$ 768	\$ 825	\$ 820	\$ 851
Percent of Annual Depreciation to Average Plant in Service	4.8%	4.4%	4.6%	4.7%	4.3%	4.2%
<b>Number of Meters (Year-End)</b>	7,135	7,192	7,415	7,616	7,723	7,728
<b>Cost of Power</b>						
KWH Purchased (Thousands)	188,124	222,238	197,290	247,648	259,671	262,543
Total Cost (Thousands)	\$ 6,849	\$ 8,161	\$ 7,991	\$ 9,476	\$ 10,272	\$ 12,112
Cost Per KWH Purchased (Cents)	3.64	3.67	4.05	3.82	3.96	4.61
Percent of System Loss	7.5%	6.1%	5.6%	5.2%	4.7%	4.8%
Average Load Factor for Year	68.5%	69.7%	67.5%	72.3%	73.0%	71.4%
<b>Electric Revenue</b>						
KWH Sold (Thousands)	174,095	208,609	186,328	234,765	247,585	249,974
Electric Utility Revenue (Thousands)	\$ 10,051	\$ 12,075	\$ 12,297	\$ 14,101	\$ 15,051	\$ 17,149
Per KWH Sold (Cents)	5.77	5.79	6.60	6.01	6.08	6.86
Gross Margin Per KWH (Cents)	2.13	2.12	2.55	2.19	2.12	2.25
<b>Operating Income (Loss) (Thousands)</b>	\$ 720	\$ 1,419	\$ 1,566	\$ 2,029	\$ 1,643	\$ 1,989
<b>Change in Net Assets (Thousands)</b>	\$ (1,066)	\$ (557)	\$ 1,019	\$ 1,423	\$ 1,129	\$ 1,579

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

2008	2009	2010	2011
\$ 25,166	\$ 28,142	\$ 29,559	\$ 29,876
\$ 3,228	\$ 3,607	\$ 3,778	\$ 3,825
\$ 1.45	\$ 1.75	\$ 1.79	\$ 1.84
\$ 9,404	\$ 10,409	\$ 11,380	\$ 11,743
37.4%	37.0%	38.5%	39.3%
\$ 884	\$ 1,086	\$ 1,137	\$ 1,191
3.8%	4.1%	3.9%	4.0%
7,796	7,801	7,824	7,810
256,066	230,564	239,580	242,241
\$ 11,588	\$ 11,753	\$ 12,873	\$ 14,488
4.53	5.10	5.37	5.98
5.6%	4.2%	3.7%	3.3%
72.0%	70.2%	70.3%	70.9%
241,640	221,000	230,756	234,226
\$ 17,307	\$ 16,079	\$ 16,485	\$ 17,559
7.16	7.28	7.14	7.50
2.63	2.18	1.77	1.52
\$ 2,417	\$ 874	\$ 180	\$ (459)
\$ 1,703	\$ 45	\$ (882)	\$ (1,217)

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
WATER DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2002 THROUGH 2011  
(UNAUDITED)**

	2002	2003	2004	2005	2006	2007
<b>Water Plant</b>						
In Service (Thousands)	\$ 7,777	\$ 7,730	\$ 9,097	\$ 12,070	\$ 12,689	\$ 13,817
Investment Per Meter	\$ 1,784	\$ 1,764	\$ 2,017	\$ 2,614	\$ 2,712	\$ 2,962
Investment Per Dollar of Water Revenue	\$ 7.03	\$ 6.41	\$ 7.27	\$ 8.59	\$ 7.94	\$ 7.65
<b>Accumulated Depreciation (Thousands)</b>	\$ 4,507	\$ 4,519	\$ 4,546	\$ 5,078	\$ 5,539	\$ 5,950
Percent of Plant	58.0%	58.5%	50.0%	45.8%	43.7%	43.1%
Annual Depreciation (Thousands)	\$ 369	\$ 374	\$ 399	\$ 510	\$ 509	\$ 465
Percent of Annual Depreciation to Average Plant in Service	4.9%	4.8%	4.7%	4.6%	4.1%	3.5%
<b>Number of Meters (Year-End)</b>	4,360	4,382	4,511	4,617	4,679	4,664
<b>Cost of Water Production</b>						
Gallons Pumped into Distribution System (Thousands)	698,015	713,447	687,083	685,547	817,520	750,756
Total Cost (Thousands)	\$ 207	\$ 233	\$ 291	\$ 314	\$ 419	\$ 419
Cost Per Thousand Gallons Pumped	\$ 0.30	\$ 0.33	\$ 0.42	\$ 0.46	\$ 0.51	\$ 0.55
Percent of System Loss	18.0%	18.4%	15.4%	13.7%	11.2%	9.7%
<b>Water Revenue</b>						
Gallons Sold (Thousands)	572,515	582,241	581,263	591,740	726,260	678,254
Water Utility Revenue (Thousands)	\$ 1,106	\$ 1,206	\$ 1,251	\$ 1,405	\$ 1,598	\$ 1,806
Per Thousand Gallons Sold	\$ 1.93	\$ 2.07	\$ 2.15	\$ 2.37	\$ 2.20	\$ 2.66
Gross Margin Per Thousand Gallons Sold	\$ 1.63	\$ 1.74	\$ 1.73	\$ 1.91	\$ 1.69	\$ 2.11
<b>Operating Income (Loss) (Thousands)</b>	\$ (6)	\$ (17)	\$ (80)	\$ (66)	\$ (18)	\$ 168
<b>Change in Net Assets (Thousands) Before Capital Contributions from City</b>	\$ (8)	\$ (17)	\$ (93)	\$ (57)	\$ (15)	\$ 186

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

2008	2009	2010	2011
\$ 14,963	\$ 15,464	\$ 15,384	\$ 15,524
\$ 3,244	\$ 3,355	\$ 3,326	\$ 3,359
\$ 9.30	\$ 9.88	\$ 8.92	\$ 8.86
\$ 6,229	\$ 6,623	\$ 6,476	\$ 6,866
41.6%	42.8%	42.1%	44.2%
\$ 471	\$ 470	\$ 489	\$ 493
3.3%	3.1%	3.2%	3.2%
4,613	4,609	4,626	4,621
540,542	568,687	514,258	500,195
\$ 432	\$ 435	\$ 410	\$ 466
\$ 0.80	\$ 0.76	\$ 0.80	\$ 0.93
10.5%	20.9%	12.2%	12.9%
483,738	449,823	451,584	435,473
\$ 1,609	\$ 1,565	\$ 1,725	\$ 1,752
\$ 3.33	\$ 3.48	\$ 3.82	\$ 4.02
\$ 2.53	\$ 2.72	\$ 3.02	\$ 3.09
\$ (120)	\$ (172)	\$ (34)	\$ (66)
\$ (112)	\$ (171)	\$ (34)	\$ (64)

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
WASTEWATER TREATMENT DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2002 THROUGH 2011  
(UNAUDITED)**

	2002	2003	2004	2005	2006	2007
<b>Wastewater Treatment Plant</b>						
In Service (Thousands)	\$ 12,935	\$ 12,932	\$ 12,868	\$ 13,042	\$ 13,179	\$ 13,223
Investment Per Account	\$ 3,023	\$ 2,962	\$ 2,888	\$ 2,850	\$ 2,851	\$ 2,867
Investment Per Dollar of Wastewater Treatment Revenue	\$ 13.92	\$ 12.84	\$ 12.44	\$ 11.24	\$ 9.05	\$ 7.90
<b>Accumulated Depreciation (Thousands)</b>	\$ 6,513	\$ 6,764	\$ 6,724	\$ 7,061	\$ 7,801	\$ 8,559
Percent of Plant	50.4%	52.3%	52.3%	54.1%	59.2%	64.7%
Annual Depreciation (Thousands)	\$ 340	\$ 353	\$ 368	\$ 393	\$ 739	\$ 770
Percent of Annual Depreciation to Average Plant in Service	2.6%	2.7%	2.8%	3.0%	5.6%	5.8%
<b>Number of Accounts (Year-End)</b>	4,279	4,366	4,456	4,576	4,622	4,612
<b>Cost of Wastewater Treatment</b>						
Flow in Gallons Processed (Thousands)	947,957	958,428	830,959	887,076	858,830	751,025
Total Treatment Cost (Thousands)	\$ 295	\$ 334	\$ 435	\$ 405	\$ 402	\$ 505
Cost Per Thousand Gallons Processed	\$ 0.31	\$ 0.35	\$ 0.52	\$ 0.46	\$ 0.47	\$ 0.67
Percent of System Loss	32.0%	29.0%	26.3%	29.8%	24.9%	17.2%
<b>Wastewater Treatment Revenue</b>						
Flow in Gallons Sold (Thousands)	644,880	680,271	612,370	622,729	644,675	621,604
Wastewater Treatment Utility Revenue (Thousands)	\$ 929	\$ 1,007	\$ 1,034	\$ 1,160	\$ 1,457	\$ 1,673
Per Thousand Gallons Sold	\$ 1.44	\$ 1.48	\$ 1.69	\$ 1.86	\$ 2.26	\$ 2.69
Gross Margin Per Thousand Gallons Sold	\$ 1.13	\$ 1.13	\$ 1.17	\$ 1.40	\$ 1.79	\$ 2.02
<b>Operating Income (Loss) (Thousands)</b>	\$ (54)	\$ (35)	\$ (255)	\$ (126)	\$ (247)	\$ (271)
<b>Change in Net Assets (Thousands)</b>	\$ 31	\$ 8	\$ (218)	\$ (79)	\$ (183)	\$ 300

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

2008	2009	2010	2011
\$ 13,501	\$ 14,299	\$ 26,975	\$ 35,931
\$ 2,958	\$ 3,134	\$ 5,901	\$ 7,862
\$ 6.55	\$ 6.76	\$ 12.34	\$ 15.91
\$ 9,076	\$ 10,023	\$ 5,402	\$ 4,401
67.2%	70.1%	20.0%	12.2%
\$ 763	\$ 1,056	\$ 986	\$ 1,644
5.7%	7.6%	4.8%	5.2%
4,564	4,562	4,571	4,570
762,208	765,652	675,928	723,764
\$ 506	\$ 567	\$ 638	\$ 1,016
\$ 0.66	\$ 0.74	\$ 0.94	\$ 1.40
15.7%	16.1%	16.1%	24.7%
642,762	642,413	567,138	545,138
\$ 2,062	\$ 2,115	\$ 2,186	\$ 2,258
\$ 3.21	\$ 3.29	\$ 3.85	\$ 4.14
\$ 2.55	\$ 2.55	\$ 2.91	\$ 2.74
\$ 95	\$ (142)	\$ (101)	\$ (1,079)
\$ 927	\$ 657	\$ 840	\$ (402)



**THIS PAGE INTENTIONALLY LEFT BLANK**

## OTHER REPORTS SECTION



CliftonLarsonAllen

CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

**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 Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2011 and have issued our report thereon dated May 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

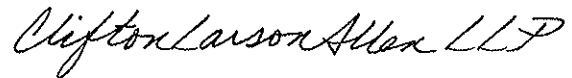
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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, 2011-1. 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, Brainerd Public Utilities Commission and the City of Brainerd and is not intended to be and should not be used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 1, 2012



CliftonLarsonAllen LLP  
www.cliftonlarsonallen.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, 2011, and have issued our report thereon dated May 1, 2012.

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 2011.

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, except the finding listed in the following paragraph.

*Minnesota Statutes* require that all disbursements be paid within 35 days of the invoice date. Out of 25 disbursements tested, we noted that two disbursements were not paid within the required 35 days.

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

*CliftonLarsonAllen LLP*  
CliftonLarsonAllen LLP

Brainerd, Minnesota  
May 1, 2012

**BRAINERD PUBLIC UTILITIES  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
DECEMBER 31, 2011**

**SIGNIFICANT DEFICIENCY**

2011-1     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.