

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA**

**FINANCIAL REPORT**

**DECEMBER 31, 2012 AND 2011**



**BRAINERD PUBLIC UTILITIES  
TABLE OF CONTENTS  
DECEMBER 31, 2012 AND 2011**

**INTRODUCTORY SECTION**

Organizational Data ..... 1

**FINANCIAL SECTION**

Independent Auditors' Report ..... 2  
Management's Discussion and Analysis ..... 5  
Statements of Net Position ..... 13  
Statements of Revenues, Expenses and Changes in Net Position ..... 15  
Statements of Cash Flows ..... 17  
Notes to Financial Statements ..... 19

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress Other Postemployment Benefit Plan ..... 36

**SUPPLEMENTARY INFORMATION**

Combining Statements of Net Position by Department ..... 37  
Combining Statements of Revenues, Expenses and Changes  
in Net Position by Department ..... 41  
Schedule of Capital Assets and Accumulated Depreciation ..... 45

**OTHER INFORMATION**

Electric Department Statistics ..... 47  
Water Department Statistics ..... 49  
Wastewater Treatment Department Statistics ..... 51

**OTHER REPORTS SECTION**

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance  
and other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards* ..... 53  
Independent Auditors' Report on Minnesota Legal Compliance ..... 55  
Schedule of Findings and Recommendations ..... 56

## INTRODUCTORY SECTION

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
ORGANIZATIONAL DATA  
DECEMBER 31, 2012**

**COMMISSION**

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

**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 LLP  
www.cliftonlarsonallen.com

## INDEPENDENT AUDITORS' REPORT

Brainerd Public Utilities Commission  
Brainerd Public Utilities  
Brainerd, Minnesota

### **Report on the Financial Statements**

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, 2012 and 2011, and the related notes to the financial statements, which collectively comprise BPU's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



An independent member of Nexia International

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brainerd Public Utilities as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United 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.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Brainerd Public Utilities' basic financial statements. The departmental 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 departmental combining financial statements and the schedule of utility plan 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.

#### *Other Information*

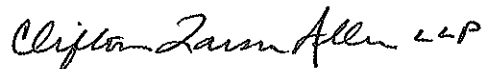
The other information has not been subjected to the auditing procedure applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.



Brainerd Public Utilities Commission  
Brainerd Public Utilities

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2013, on our consideration of Brainerd Public Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Brainerd Public Utilities' internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 16, 2013

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2012 AND 2011  
(UNAUDITED)**

The management of Brainerd Public Utilities (BPU) offers readers of our financial statements this narrative overview and analysis of the financial activities of BPU for the years ended December 31, 2012 and 2011. This discussion and analysis should be read in conjunction with BPU's financial statements and accompanying notes, which follow this section.

**Financial Highlights**

- Assets of BPU exceeded its liabilities at the close of December 31, 2012 by \$44,771,870 (net position) which is a decrease of \$589,766 or 1.30% from 2011 to 2012. Of this amount, \$8,546,365 is unrestricted net position that may be used to meet BPU's ongoing obligations to customers and creditors.
- Total assets decreased by \$2,308,014 or 2.8% from 2011 to 2012. Cash and investments decreased by \$1,042,590 or 8.8% and accumulated depreciation of capital assets exceeded the additions to capital assets by \$845,525 from 2011 to 2012.
- Total liabilities decreased by \$1,718,248 or 4.6% from 2011 to 2012. Revenue bonds and notes payable decreased by \$1,951,000 or 5.7% from 2011 to 2012.
- Unrestricted net position decreased by \$1,364,025 or 13.8% from 2011 to 2012.
- Total operating revenue increased \$801,796 or 3.7%, from the prior year.
- Total operating expenses decreased \$503,829 or 2.1%, from the prior year.
- Debt service coverage on Electric Utility Revenue Bonds increased to 0.77 for 2012 from 0.32 for 2011. The minimum ratio required by the bond covenants is 1.25. In September 2012, Moody's Investors Service downgraded the rating on these bonds from Aa3 to A3.

**Overview of the Financial Statements**

BPU provides electric distribution, water production, treatment and distribution and wastewater treatment to the City of Brainerd. BPU also provides electric distribution to portions of the City of Baxter and treats 100% of the City of Baxter's wastewater.

BPU is a component unit of the City of Brainerd. BPU's operations, capital asset program and debt payments are funded entirely through rates, fees and other charges for these utility services. As such, BPU is considered to be, and therefore presents its financial report, as a stand-alone enterprise fund.

**Basic Financial Statements.** As a stand-alone enterprise fund, BPU's basic financial statements consist of: *Statements of Net Position*, *Statements of Revenues, Expenses and Changes in Net Position* and *Statements of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide both short-term and long-term financial information about, and implications, for BPU's financial position. To provide a better understanding of the information contained in these statements the *Notes to the Financial Statements* appear immediately following the basic financial statements. In addition to this discussion and analysis, Other Required Supplementary Information, generally statistical in nature, is presented.

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

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2012 AND 2011  
(UNAUDITED)**

**Overview of the Financial Statements (Continued)**

The *Statements of Revenues, Expenses and Changes in Net Position* present information showing how BPU's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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 position may serve as an indicator of the effect of BPU's current year operations on its financial position.

The *Statements of Cash Flows* report the cash provided and used by operating activities, as well as other cash sources such as investment revenue and debt financing, and other cash uses, such as payments for bond principal and capital additions.

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**

The Statements of Net Position includes information on all BPU's assets and liabilities, with the difference between the two reported as net position. These statements proved the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of BPU.

Net capital assets represent 71.2% and 70.3% of total assets as of December 31, 2012 and 2011, respectively. Long-term liabilities represent 38.4% and 39.7% of total liabilities and net position as of December 31, 2012 and 2011, respectively. Total net position decreased 1.3% and 2.5% as of December 31, 2012 and 2011, respectively.

The largest portion of BPU's net position (58%), at December 31, 2012, reflects its net investment in capital assets. Although BPU's net 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.

For 2012, \$10,209,103 (22.8%) of BPU's net position represents resources that are restricted. The remaining balance of unrestricted net position of \$8,546,365 (19.2%) may be used to meet BPU ongoing obligations.

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2012 AND 2011  
(UNAUDITED)**

**Financial Analysis (Continued)**

**Condensed Statements of Net Position**

	December 31,			Change	
	2012	2011	2010	2012 to 2011	2011 to 2010
Net Capital Assets	\$ 57,476,047	\$ 58,321,572	\$ 58,787,393	\$ (845,525)	\$ (465,821)
Restricted Assets	11,938,181	12,116,621	13,657,895	(178,440)	(1,541,274)
Current Assets	11,104,966	12,367,612	13,942,489	(1,262,646)	(1,574,877)
Other Assets	158,089	179,492	201,605	(21,403)	(22,113)
<b>Total Assets</b>	<b>\$ 80,677,283</b>	<b>\$ 82,985,297</b>	<b>\$ 86,589,382</b>	<b>\$ (2,308,014)</b>	<b>\$ (3,604,085)</b>
Current Liabilities	\$ 4,940,321	\$ 4,710,281	\$ 5,139,209	\$ 230,040	\$ (428,928)
Long-Term Liabilities	30,965,092	32,913,380	34,925,605	(1,948,288)	(2,012,225)
<b>Total Liabilities</b>	<b>35,905,413</b>	<b>37,623,661</b>	<b>40,064,814</b>	<b>(1,718,248)</b>	<b>(2,441,153)</b>
Net Investment in Capital					
Assets	26,016,402	24,972,851	23,588,950	1,043,551	1,383,901
Restricted Net Position	10,209,103	10,478,395	11,281,787	(269,292)	(803,392)
Unrestricted Net Position	8,546,365	9,910,390	11,653,831	(1,364,025)	(1,743,441)
<b>Total Net Position</b>	<b>44,771,870</b>	<b>45,361,636</b>	<b>46,524,568</b>	<b>(589,766)</b>	<b>(1,162,932)</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 80,677,283</b>	<b>\$ 82,985,297</b>	<b>\$ 86,589,382</b>	<b>\$ (2,308,014)</b>	<b>\$ (3,604,085)</b>

**Statements of Revenues, Expenses and Changes in Net Position**

**2012**

Total operating revenues for 2012 increased \$801,796 or 3.7% from prior year. Electric Department increased \$548,487 or 3.1% from prior year primarily due to increase in overall kWh sales of approximately 2.7%, Water Department increased \$241,493 or 13.6% from prior year primarily due to rate adjustments made during the year and overall gallons sold increase of 0.7%. Wastewater Treatment Department increased \$11,816 or 0.5% from prior year.

Total operating expenses for 2012 decreased \$503,829 or 2.1% from prior year. Of this decrease, approximately \$148,000 was related to maintenance expenses and \$296,000 was due to lower depreciation expense.

Net nonoperating revenue for 2012 decreased \$260,556 from prior year. Of this amount, interest income from investments decreased approximately \$215,600, interest income on notes receivable with City of Baxter related to the expansion of the wastewater treatment facility decreased approximately \$10,000, interest expense on debt service decreased approximately \$54,200, local option sales tax proceeds increased approximately \$45,300, federal grant revenue decreased approximately \$74,600, gains on disposal of capital assets decreased approximately \$60,000.

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2012 AND 2011  
(UNAUDITED)**

**Financial Analysis (Continued)**

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

**2011**

Total operating revenues for 2011 increased \$1,188,829 or 5.7% from prior year. Electric Department increased \$1,082,087 or 6.5% from prior year primarily due to increase in overall kWh sales of approximately 1.5%, Water Department increased \$9,291 or .5% from prior year primarily due to rate adjustments made during the year since overall water gallonage sold decreased 3.6% from prior year. Wastewater Treatment Department increased \$97,451 or 4.4% from prior year primarily due to 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 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, 2012 AND 2011  
(UNAUDITED)**

**Financial Analysis (Continued)**

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	For the Year Ended December 31,			Change	
	2012	2011	2010	2012 to 2011	2011 to 2010
<b>OPERATING REVENUES</b>					
Electric	\$ 18,378,000	\$ 17,829,513	\$ 16,747,426	\$ 548,487	\$ 1,082,087
Water	2,020,325	1,778,832	1,769,541	241,493	9,291
Wastewater Treatment	2,333,794	2,321,978	2,224,527	11,816	97,451
Total Operating Revenue	22,732,119	21,930,323	20,741,494	801,796	1,188,829
<b>OPERATING EXPENSES</b>					
Production and Treatment	1,451,257	1,482,611	1,047,720	(31,354)	434,891
Purchased Power	14,498,072	14,488,488	12,872,692	9,584	1,615,796
Distribution and Collection	2,029,558	2,216,504	2,059,258	(186,946)	157,246
Administration	1,996,673	1,996,685	2,080,984	(12)	(84,299)
Depreciation and Amortization	3,056,157	3,351,258	2,634,926	(295,101)	716,332
Total Operating Expenses	23,031,717	23,535,546	20,695,580	(503,829)	2,839,966
<b>OPERATING INCOME</b>	(299,598)	(1,605,223)	45,914	1,305,625	(1,651,137)
<b>NONOPERATING REVENUE (EXPENSE)</b>					
Interest Income - Investments	213,155	428,736	379,133	(215,581)	49,603
Interest Income - Notes Receivable	264,284	274,144	270,465	(9,860)	3,679
Interest Expense	(1,159,579)	(1,213,757)	(841,978)	54,178	(371,779)
Local Option Sales Tax	880,526	835,200	815,593	45,326	19,607
Federal Grant Revenue -					
Build America Bond	177,883	185,876	155,171	(7,993)	30,705
Other Grants	1,382	68,000	10,576	(66,618)	57,424
Gain (Loss) on Disposal of Capital Assets	45,340	105,348	(156,213)	(60,008)	261,561
Net Nonoperating Revenue	422,991	683,547	632,747	(260,556)	50,800
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS</b>	123,393	(921,676)	678,661	1,045,069	(1,600,337)
<b>CAPITAL CONTRIBUTIONS</b>	57,808	518,896	4,335,748	(461,088)	(3,816,852)
<b>TRANSFERS TO THE CITY</b>	(770,967)	(760,152)	(754,046)	(10,815)	(6,106)
<b>CHANGE IN NET POSITION</b>	(589,766)	(1,162,932)	4,260,363	573,166	(5,423,295)
Net Position - Beginning	45,361,636	46,524,568	42,264,205	(1,162,932)	4,260,363
<b>NET POSITION - ENDING</b>	<u>\$ 44,771,870</u>	<u>\$ 45,361,636</u>	<u>\$ 46,524,568</u>	<u>\$ (589,766)</u>	<u>\$ (1,162,932)</u>

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2012 AND 2011  
(UNAUDITED)**

**Capital Assets**

The following table summarizes capital assets, net of depreciation, as of December 31, 2012, 2011 and 2010.

**Condensed Schedule of Capital Assets**

	December 31,			Change	
	2012	2011	2010	2012 to 2011	2011 to 2010
Electric Department					
Distribution System	\$ 16,042,893	\$ 15,714,542	\$ 15,625,548	\$ 328,351	\$ 88,994
Street and Security Lighting System	342,228	367,043	403,757	(24,815)	(36,714)
Water Department					
Production Facilities	1,158,690	1,159,141	1,194,153	(451)	(35,012)
Distribution System	6,753,046	6,911,225	7,073,500	(158,179)	(162,275)
Wastewater Treatment Department					
Lift Station Facilities	1,256,195	1,347,252	1,440,407	(91,057)	(93,155)
Treatment Facilities	27,923,918	28,710,297	18,621,430	(786,379)	10,088,867
Land and Land Improvements	1,440,673	1,455,358	1,469,126	(14,685)	(13,768)
Machinery and Equipment	331,596	369,467	454,544	(37,871)	(85,077)
Furniture and Fixtures	22,170	41,970	69,294	(19,800)	(27,324)
Transportation Equipment	420,765	407,003	369,384	13,762	37,619
Service Center	1,712,341	1,838,274	1,939,065	(125,933)	(100,791)
Construction in Progress	71,532	-	10,127,185	71,532	(10,127,185)
<b>Total</b>	<b>\$ 57,476,047</b>	<b>\$ 58,321,572</b>	<b>\$ 58,787,393</b>	<b>\$ (845,525)</b>	<b>\$ (465,821)</b>

The changes in capital assets for the past three years and the events causing those changes are noted below.

	2012	2011	2010
Additions and Transfers to Capital Assets			
Being Depreciated (By Department)			
Electric	\$ 1,399,164	\$ 1,105,216	\$ 1,775,540
Water	271,216	230,146	520,975
Water - Capital Contributions from City	-	-	35,175
Wastewater Treatment	478,904	11,587,523	18,284,011
General Plant	94,704	66,537	-
	2,243,988	12,989,422	20,615,701
Additions to Construction in Progress	1,293,178	2,109,917	11,220,999
Transfers from Construction in Progress to Capital Assets Being Depreciated	(1,221,646)	(12,237,102)	(18,343,546)
Deletions and Transfers	(128,807)	-	(193,163)
Normal Annual Depreciation	(3,032,238)	(3,328,058)	(2,611,968)
<b>Total</b>	<b>\$ (845,525)</b>	<b>\$ (465,821)</b>	<b>\$ 10,688,023</b>

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2012 AND 2011  
(UNAUDITED)**

**Capital Assets (Continued)**

Major capital asset transactions for 2012 and 2011 include the following:

	2012	2011
<b><u>Electric</u></b>		
Distribution Transformers and Metering Purchased	\$ 211,200	\$ 304,200
Expansion of Distribution Feeder System	912,900	375,900
Distribution System Improvements	194,200	234,100
Aerial Device	-	114,700
<b><u>Water</u></b>		
Acquisition of Meters and Valves	106,900	79,700
Distribution System Improvements	160,000	150,400
<b><u>Wastewater</u></b>		
Lift Station Improvements	-	5,800
Treatment Facility Improvements	158,900	1,393,200
Sludge Applicator	-	83,700
Tank Trailers	100,800	43,400
Side-by-Side Vehicle	-	11,000
Sludge Application Tractor	217,500	-
<b><u>General Plant</u></b>		
Service Center Improvements	10,000	66,500
Radio System	84,700	-
<b><u>Construction in Progress</u></b>		
Water Treatment Plant Filter Bed Project	71,500	-

**Debt Administration**

Electric Utility Revenue Bonds (Series 2007A) were issued in 2007 in the amount of \$11,140,000 for improvements to the electric distribution system including replacement of the main substation. The revenue bonds outstanding of the BPU are issued on behalf of BPU by the City of Brainerd and are solely backed by a pledge of net revenues of BPU.

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

In May 2009, the City of Brainerd, on behalf of BPU, entered into a project loan agreement in the amount of \$25,966,788 between the State of Minnesota, by and through the PFA and the BPU, for construction costs related to the expansion to the wastewater treatment facility. The City of Brainerd, on behalf of BPU, issued a General Obligation Build America Bond, Series 2009 (Wastewater Project), to the PFA, evidencing its obligation to repay the loan. The City has complied with all requirements of



**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2012 AND 2011  
(UNAUDITED)**

**Debt Administration (Continued)**

the American Reinvestment and Recovery Act (ARRA) to issue the Note as a Build America Bond (BAB) and the City has irrevocably elected to have the Note constitute a BAB and to have the direct pay tax credit provision of the ARRA apply to the Note. The bond outstanding of the BPU is backed by the full faith and credit and taxing powers of the City of Brainerd and a pledge of net revenues of BPU.

**Budgetary Highlights**

The BPU Commission adopts an annual Operating Budget and a Capital Improvement Budget. Because of its enterprise nature, the budgets are not operated as statutory budgets. The Commission and Utilities staff review budget results monthly and the budget is used as a financial management tool. A summary of the 2012 Operating Budget Analysis and the 2013 Operating Budget approved by the Commission is presented is follows:

	2012 Budget	2012 Actual	Favorable (Unfavorable) Variance	2013 Budget
Utility Operating Revenue	\$ 21,255,000	\$ 22,326,572	\$ 1,071,572	\$ 23,810,000
Other Operating Revenue	303,000	405,547	102,547	286,000
Total Operating Revenue	21,558,000	22,732,119	1,174,119	24,096,000
Purchased Power	13,520,000	14,498,072	(978,072)	15,315,000
Other Operating Expense	5,502,000	5,477,488	24,512	5,772,000
Depreciation and Amortization Expense	3,289,000	3,056,157	232,843	2,985,000
Total Operating Expense	22,311,000	23,031,717	(720,717)	24,072,000
Operating Income	(753,000)	(299,598)	453,402	24,000
Net Nonoperating Revenue	357,000	422,991	65,991	319,000
Income Before Capital Contributions from City and Operating Transfers to the City	(396,000)	123,393	519,393	343,000
Capital Contributions	-	57,808	57,808	-
Operating Transfers to the City	(760,000)	(770,967)	(10,967)	(762,000)
Change in Net Position	<u>\$ (1,156,000)</u>	<u>\$ (589,766)</u>	<u>\$ 566,234</u>	<u>\$ (419,000)</u>

BPU adjusted all utility rates effective December 1, 2011 and February 1, 2013. The primary reason for the adjustments is due to Minnesota Power, the wholesale power provider for BPU, raising its rates effective July 1, 2012, to wholesale municipal customers.

**Requests for Information**

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

**THIS PAGE INTENTIONALLY LEFT BLANK**

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2012 AND 2011**

<b>ASSETS</b>	2012	2011
<b>CAPITAL ASSETS</b>		
In Service	\$ 83,017,302	\$ 81,331,163
Construction in Progress	71,532	-
Total Investment in Capital Assets	83,088,834	81,331,163
Less: Accumulated Depreciation	(25,612,787)	(23,009,591)
Net Capital Assets	57,476,047	58,321,572
<b>RESTRICTED ASSETS</b>		
Cash and Investments	3,853,982	3,603,388
Notes Receivable	7,990,999	8,416,333
Notes Receivable - Interest	93,200	96,900
Total Restricted Assets	11,938,181	12,116,621
<b>CURRENT ASSETS</b>		
Cash and Investments	6,986,686	8,279,870
Accounts Receivable	2,845,300	2,714,026
Due from Power Supplier	35,429	25,714
Interest Receivable	35,465	59,282
Due from the City of Brainerd	110,890	110,422
Inventory	1,019,855	1,081,406
Prepaid Expenses	71,341	96,892
Total Current Assets	11,104,966	12,367,612
<b>OTHER ASSETS</b>		
Service Territory Acquisitions, Net of Accumulated Amortization	22,158	29,621
Deferred Charges	135,931	149,871
Total Other Assets	158,089	179,492
Total Assets	\$ 80,677,283	\$ 82,985,297

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF NET POSITION (CONTINUED)  
DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>LIABILITIES AND NET POSITION</b>		
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 26,016,402	\$ 24,972,851
Restricted for		
City of Brainerd Contribution	231,613	153,994
Debt Service	9,977,490	10,324,401
Unrestricted	8,546,365	9,910,390
Total Net Position	44,771,870	45,361,636
<b>LONG-TERM LIABILITIES</b>		
Electric Utility Revenue Bonds Payable	7,600,000	8,275,000
General Obligation Sewer Revenue Notes Payable	839,000	1,037,000
General Obligation Build America Bonds Payable	21,819,000	22,936,000
Compensated Absences	656,360	618,247
Other Postemployment Benefit Obligation	50,732	47,133
Total Long-Term Liabilities	30,965,092	32,913,380
<b>CURRENT LIABILITIES</b>		
Accounts Payable	1,465,374	1,480,853
Electric Utility Revenue Bonds Payable	675,000	650,000
General Obligation Sewer Revenue Notes Payable	198,000	194,000
General Obligation Build America Bonds Payable	1,117,000	1,082,000
Capital Lease Payable	-	25,000
Payable to City of Brainerd	231,613	153,994
Accrued Expenses		
Salaries and Withholding Taxes	248,134	261,145
Sales Taxes	64,475	70,324
Current Liabilities Payable from Restricted Assets:		
Bond Interest	308,700	321,912
Conservation Incentive Program Payable	388,411	244,154
Customer Deposits	243,614	226,899
Total Current Liabilities	4,940,321	4,710,281
Total Liabilities	35,905,413	37,623,661
Total Liabilities and Net Position	\$ 80,677,283	\$ 82,985,297

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

<b>OPERATING REVENUES</b>	<u>2012</u>	<u>2011</u>
Utility Revenues		
Residential	\$ 6,556,340	\$ 6,386,247
Commercial	7,392,903	7,108,568
Large Commercial	4,337,511	4,402,692
Industrial	2,993,945	2,608,767
City of Brainerd	387,506	450,394
Internal Use	658,367	612,402
Total Utility Revenues	<u>22,326,572</u>	<u>21,569,070</u>
Other Operating Revenues		
Penalties	138,374	119,822
Other	267,173	241,431
Total Other Operating Revenues	<u>405,547</u>	<u>361,253</u>
Total Operating Revenues	22,732,119	21,930,323
<b>OPERATING EXPENSES</b>		
Production and Treatment		
Salaries and Wages	534,947	521,890
Purchased Services	608,012	644,962
Supplies and Maintenance	132,628	140,824
Employee Benefits	162,808	160,096
Other Charges	12,862	14,839
Total Production Expenses	<u>1,451,257</u>	<u>1,482,611</u>
Purchased Power	14,498,072	14,488,488
Distribution and Collection		
Salaries and Wages	1,046,379	1,026,474
Purchased Services	383,469	527,334
Supplies and Maintenance	165,833	203,607
Employee Benefits	407,213	405,837
Other Charges	26,664	53,252
Total Distribution and Collection Expenses	<u>2,029,558</u>	<u>2,216,504</u>
Administration		
Salaries and Wages	956,730	962,573
Purchased Services	268,190	256,641
Supplies and Maintenance	93,797	73,703
Insurance and Bonds	122,884	127,358
Employee Benefits	342,362	370,645
Other Charges	212,710	205,765
Total Administration Expenses	<u>1,996,673</u>	<u>1,996,685</u>
Depreciation and Amortization	<u>3,056,157</u>	<u>3,351,258</u>
Total Operating Expenses	<u>\$ 23,031,717</u>	<u>\$ 23,535,546</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING LOSS</b>	\$ (299,598)	\$ (1,605,223)
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Interest Income - Investments	213,155	428,736
Interest Income - Notes Receivable	264,284	274,144
Interest Expense	(1,159,579)	(1,213,757)
Local Option Sales Tax	880,526	835,200
Federal Grant Revenue - Build America Bond	177,883	185,876
Other Grant Revenue	1,382	68,000
Gain (Loss) on Disposal of Capital Assets	45,340	105,348
Net Nonoperating Revenue	<u>422,991</u>	<u>683,547</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS</b>	123,393	(921,676)
<b>CAPITAL CONTRIBUTIONS</b>	57,808	518,896
<b>TRANSFERS TO THE CITY</b>	<u>(770,967)</u>	<u>(760,152)</u>
<b>CHANGE IN NET POSITION</b>	(589,766)	(1,162,932)
Net Position - Beginning	<u>45,361,636</u>	<u>46,524,568</u>
<b>NET POSITION - ENDING</b>	<u>\$ 44,771,870</u>	<u>\$ 45,361,636</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 22,663,464	\$ 22,671,163
Cash Payments to Employees for Services	(2,512,954)	(2,529,614)
Cash Payments to Other Suppliers of Goods or Services	(17,350,361)	(17,672,795)
Net Cash Provided by Operating Activities	2,800,149	2,468,754
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer to Primary Government	(693,348)	(1,019,702)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to Utility Plant	(2,143,748)	(2,397,154)
Proceeds from Local Option Sales Tax	878,317	794,448
Principal Paid on Long-Term Debt	(1,926,000)	(1,858,788)
Interest Paid on Long-Term Debt	(1,172,791)	(1,214,462)
Payments on Capital Lease	(25,000)	(50,000)
Principal Received on Notes Receivable	425,334	412,932
Federal Grant Revenue - Build America Bond	181,183	184,129
Proceeds from Sale of Utility Plant	136,321	63,348
Net Cash Used by Capital and Related Financing Activities	(3,646,384)	(4,065,547)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	504,956	717,767
Purchase of Investments	(5,536,000)	(6,550,000)
Redemption of Investments	6,336,000	7,910,000
Net Cash Provided by Investing Activities	1,304,956	2,077,767
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(234,627)	(538,728)
Cash and Cash Equivalents - Beginning	5,803,815	6,342,543
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 5,569,188	\$ 5,803,815

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Loss	\$ (299,598)	\$ (1,605,223)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	3,056,157	3,351,258
Revenue Reduced for Uncollectible Accounts	40,504	59,236
(Increase) Decrease in Assets:		
Accounts Receivable	(214,063)	(336,288)
Due from Power Supplier	(9,715)	1,341,779
Prepaid Expenses	25,551	(40,131)
Inventories	61,551	(68,015)
Increase (Decrease) in Liabilities:		
Accounts Payable	(44,062)	38,272
Accrued Liabilities	(2,145)	57,206
Conservation Incentive Program Payable	144,257	(293,115)
Accrued Compensated Absences	38,113	(47,419)
Other Postemployment Benefit Obligation	3,599	11,194
Net Cash Provided by Operating Activities	\$ 2,800,149	\$ 2,468,754
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS</b>		
Cash and Investments - Current Assets	\$ 6,986,686	\$ 8,279,870
Cash and Investments - Restricted Assets	3,853,982	3,603,388
Cash and Investments - Balance Sheets	10,840,668	11,883,258
Less: Investments not Meeting the Definition of Cash Equivalents	5,271,480	6,079,443
Cash and Cash Equivalents - Ending	\$ 5,569,188	\$ 5,803,815
<b>NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Utility Plant on Account	\$ 27,153	\$ (38,008)
Net Increase (Decrease) in Fair Value of Investments	(7,963)	77,396



**THIS PAGE INTENTIONALLY LEFT BLANK**

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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

***Reporting Entity***

BPU is a component unit of the City of Brainerd. Component units are legally separate organizations for which elected officials of the primary government (City of Brainerd) are financially accountable. 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.

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Basis of Accounting (Continued)***

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.

***Capital Assets***

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, 2012 and 2011 was \$1,159,579 and \$1,213,757, respectively, and the amount capitalized for the same time periods was zero for both years.

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. 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, 2012 and 2011 was zero for both years.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Inventory***

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

***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.

***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.

***Revenue Recognition***

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

***Electric Power Costs and Due To/From Power Supplier***

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Net Position***

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

***Comparative Data***

Net Position amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. There was no net overall effect on assets or liabilities reported in the prior year.

**NOTE 2 CAPITAL ASSETS**

A summary of capital asset activity for the year ended December 31, 2012 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Electric	\$ 26,869,710	\$ 1,399,164	\$ 455,895	\$ 27,812,979
Water	14,366,245	271,216	-	14,637,461
Wastewater Treatment	34,387,534	478,904	101,954	34,764,484
General Plant	5,707,674	94,704	-	5,802,378
Construction in Progress	-	1,293,178	1,221,646	71,532
	<u>81,331,163</u>	<u>3,537,166</u>	<u>1,779,495</u>	<u>83,088,834</u>
Accumulated Depreciation	(23,009,591)	(3,032,238)	(429,042)	(25,612,787)
Net Capital Assets	<u>\$ 58,321,572</u>	<u>\$ 504,928</u>	<u>\$ 1,350,453</u>	<u>\$ 57,476,047</u>

A summary of capital asset 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 Capital Assets	<u>\$ 58,787,393</u>	<u>\$ 11,771,281</u>	<u>\$ 12,237,102</u>	<u>\$ 58,321,572</u>

Capital assets not being depreciated totaled \$1,302,914 and \$1,286,087 at December 31, 2012 and 2011, respectively.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 3 RESTRICTED ASSETS**

**Cash and Investments**

At December 31, 2012 and 2011, restricted cash and investments consisted of the following:

	2012	2011
Customer Deposits	\$ 243,614	\$ 226,899
City of Brainerd Contribution	231,613	148,976
Conservation Incentive Program	388,411	244,154
Electric Utility Revenue Bonds Debt Service Reserve	1,675,473	1,369,236
General Obligation Revenue Notes and Bonds Debt Service Reserve	1,314,871	1,614,123
Total Restricted Cash and Investments	\$ 3,853,982	\$ 3,603,388

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 wastewater collection and stormwater charges to City. Conservation Incentive Program is restricted by State Statute for electric customer conservation programs. 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.

**Notes Receivable**

On February 17, 2009, the City of Brainerd, on behalf of BPU, entered into a financing agreement in a principal amount not to exceed \$11,667,000 with the City of Baxter related to the financing of the expansion of the wastewater treatment facility. Baxter will own one-third share of the expanded WWTF's capacity and Brainerd will own two-thirds of the expanded WWTF's capacity. The financing of the expanded WWTF is being funded by two loans from the Minnesota Public Finance Authority (PFA) to Brainerd. The detail of the two loans is described in Note 7.

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

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 3 RESTRICTED ASSETS (CONTINUED)**

**Notes Receivable (Continued)**

Note receivable activity for the year ended December 31, 2012, is as follows:

	<u>Note No.1</u>	<u>Note No.2</u>	<u>Total</u>
Beginning Balance	\$ 410,333	\$8,006,000	\$8,416,333
Payments Received	(64,667)	(360,667)	(425,334)
Ending Balance	<u>\$ 345,666</u>	<u>\$7,645,333</u>	<u>\$7,990,999</u>

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>

Additions to notes receivable are recorded as Capital Contributions on the Statements of Revenues, Expenses, and Changes in Net Position. Interest accrued on the notes receivable as of December 31, 2012 and 2011 of \$93,200 and \$96,900, respectively, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the years ended December 31, 2012 and 2011 was \$264,284 and \$274,144, respectively.

**NOTE 4 DEPOSITS AND INVESTMENTS**

Cash and investments are presented at December 31, 2012 and 2011, as follows:

	<u>2012</u>	<u>2011</u>
Restricted Cash and Investments	\$ 3,853,982	\$ 3,603,388
Current Cash and Investments	6,986,686	8,279,870
Total	<u>\$ 10,840,668</u>	<u>\$ 11,883,258</u>

Cash and investments at December 31, 2012 and 2011, consisted of the following:

	<u>2012</u>	<u>2011</u>
Petty Cash	\$ 1,500	\$ 1,500
Deposits	5,567,688	4,845,318
Investments	5,271,480	7,036,440
Total	<u>\$ 10,840,668</u>	<u>\$ 11,883,258</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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

***Deposits***

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

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2012, there were no deposits subject to custodial risk.

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

***Authorized Investments***

Under the provisions of the City of Brainerd's investment policy revised by Council on February 6, 2012 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.



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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

**Risk Disclosures**

***Interest Rate Risk***

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

Information about the sensitivity of the fair values of BPU's investments to market interest rate fluctuations is provided by the following table that shows the distribution of BPU's investments at December 31, 2012 by maturity:

Investment Type	Investment Maturities (in Years)			Fair Value
	Less Than 1	1-5	More Than 5	
December 31, 2012				
FHLB	\$ -	\$ 503,585	\$ 2,800,615	\$ 3,304,200
FHLMC	-	-	902,280	902,280
CP-Credit Agricole	1,065,000	-	-	1,065,000
Total	<u>\$ 1,065,000</u>	<u>\$ 503,585</u>	<u>\$ 3,702,895</u>	<u>\$ 5,271,480</u>

***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, 2012 are as follows:

Investment Type	S & P Rating	% of Investments
December 31, 2012		
FHLB	AA+	62.7%
FHLMC	AA+	17.1%
CP-Credit Agricole	A1	20.2%
Total		<u>100.0%</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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

*Risk Disclosures (Continued)*

***Concentration of Credit Risk***

The investment policy of the BPU contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by *Minnesota Statutes*. Investments in any one issuer, as a percentage of total BPU investments as of December 31, 2012, 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.

**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, 2012 and 2011, BPU owed the City the following:

	2012	2011
Monthly Operating Contribution	\$ 62,011	\$ 70,095
Water System Improvement Projects	81,483	-
Wastewater Collection and Storm Sewer Charges	88,119	83,899
Total	\$ 231,613	\$ 153,994

**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, 2012 and 2011, with related accumulated depreciation of \$99,593 and \$86,314, respectively. Depreciation expense related to this asset for the years ended December 31, 2012 and 2011 was \$13,279 and \$13,279, respectively.

Capital lease activity for the year ended December 31, 2012 was as follows:

Beginning Balance	\$ 25,000
Reductions	(25,000)
Ending Balance	\$ -

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 7 LONG-TERM DEBT**

Long-term debt consists of the following as of December 31, 2012 and 2011:

	2012	2011
<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.	\$ 8,275,000	\$ 8,925,000
<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.	1,037,000	1,231,000
<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.	22,936,000	24,018,000
Total Debt	32,248,000	34,174,000
<u>Less Amount Due Within One Year</u>		
Electric Utility Revenue Bonds	675,000	650,000
General Obligation Sewer Revenue Notes	198,000	194,000
General Obligation Build America Bonds	1,117,000	1,082,000
Net Long-Term Debt	\$ 30,258,000	\$ 32,248,000

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

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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

On May 4, 2009, the City of Brainerd, on behalf of BPU, entered into a project loan agreement in the amount of \$25,966,788 between the State of Minnesota, by and through the PFA and the BPU, for construction costs related to the expansion to the wastewater treatment facility. The City of Brainerd, on behalf of BPU, issued a General Obligation Build America Bond, Series 2009 (Wastewater Project), to the PFA, evidencing its obligation to repay the loan. The City has complied with all requirements of the American Reinvestment and Recovery Act (ARRA) to issue the Note as a Build America Bond (BAB) and the City has irrevocably elected to have the Note constitute a BAB and to have the direct pay tax credit provision of the ARRA apply to the Note. The interest rate on the loan is 3.233% and the loan matures August 20, 2028.

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

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

Year Ending December 31,	Electric Utility Revenue Bonds		
	Principal	Interest	Total
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	800,000	227,238	1,027,238
2018-2022	4,585,000	611,131	5,196,131
Total	<u>\$ 8,275,000</u>	<u>\$ 2,042,921</u>	<u>\$ 10,317,921</u>

Year Ending December 31,	General Obligation Sewer Revenue Notes		
	Principal	Interest	Total
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>\$ 1,037,000</u>	<u>\$ 70,424</u>	<u>\$ 1,107,424</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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

Year Ending December 31,	General Obligation Build America Bonds		
	Principal	Interest	Total
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	1,269,000	589,926	1,858,926
2018-2022	6,987,000	2,307,101	9,294,101
2023-2027	8,191,000	1,102,227	9,293,227
2028	1,800,000	58,194	1,858,194
Total	<u>\$ 22,936,000</u>	<u>\$ 6,802,168</u>	<u>\$ 29,738,168</u>

Electric Utility Revenue Bonds

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

General Obligation Sewer Revenue Notes and General Obligation Build America Bonds

The resolutions authorizing the issuance of General Obligation Sewer Revenue Notes and General Obligation Build America Bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. To comply with coverage test, local option sales tax proceeds received equaling 105% of the 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, 2012 was \$1,314,871. The Interest payments are made semi-annually on February 20 and August 20, and principal payments on August 20.

Long-term debt activity for the year ended December 31, 2012, is as follows:

	Electric Utility Revenue Bonds	G.O. Sewer Revenue Notes	G.O. Build America Bonds
Beginning Balance	\$ 8,925,000	\$ 1,231,000	\$ 24,018,000
Retirements	(650,000)	(194,000)	(1,082,000)
Ending Balance	<u>\$ 8,275,000</u>	<u>\$ 1,037,000</u>	<u>\$ 22,936,000</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**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
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>

Debt Service Coverage

BPU is required to be in compliance with debt covenants as to customer rates and charges in Section 4.07 of the Bond Resolution adopted by the Brainerd City Council on August 6, 2007 and concurred in by the BPU Commission, authorizing the issuance of Electric Revenue Bonds, Series 2007A. Section 4.07(d) of the Bond requires debt service coverage such that annual net electric revenues will be no less than 125% or 1.25 times of maximum annual principal and interest requirements of the Bonds. Rates and charges will be increased from time to time whenever necessary to carry out the obligations of the Bond Resolution. The debt service coverage ratio calculation for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
<b><i>Electric Department</i></b>		
<u>Revenue</u>		
Operating Revenues	\$ 18,378,000	\$ 17,829,513
Interest Income	129,687	323,746
Total Revenue	<u>18,507,687</u>	<u>18,153,259</u>
<u>Expenses</u>		
Operating Expenses	18,154,690	18,277,798
Less Depreciation and Amortization	(1,199,080)	(1,211,698)
Transfers to City of Brainerd	770,967	760,152
Total Expenses	<u>17,726,577</u>	<u>17,826,252</u>
Net Revenue Available for Debt Service	<u>781,110</u>	<u>327,007</u>
<u>Debt Service Charges for Following Year</u>		
Principal	675,000	650,000
Interest	342,838	368,838
Total Debt Service Charges	<u>1,017,838</u>	<u>1,018,838</u>
Debt Service Coverage Ratio	<u>0.77</u>	<u>0.32</u>

On September 20, 2012, Moody's Investors Service downgraded the Electric Utility Revenue Bonds, Series 2007A rating from Aa3 to A3.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 8 RISK MANAGEMENT**

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

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

**NOTE 9 DEFINED BENEFIT PENSION PLAN**

Plan Description

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

BPU contributes to the General Employees Retirement Fund (GERF), a cost-sharing multiple-employer defined benefit pension plan administered by PERA. GERF provides retirement, disability, and death benefits to plan members and beneficiaries. Benefits are established by State Statute and vest after three years of credited service. Members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security. All new members must participate in the Coordinated Plan. PERA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained on the Internet at [www.mnpera.org](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 2012. The contribution requirements of the plan members and BPU are established and may be amended by state statute. The BPU's contributions to GERF for the years ending December 31, 2012, 2011, and 2010 were \$200,305, \$195,862, and \$188,914, respectively equal to the required contributions for each year.

**NOTE 10 OTHER 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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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

benefits program. Pursuant to the provisions of the plan, retirees are required to pay 100% of the total premium cost. As of January 1, 2012, 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.

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, 2012 and 2011:

	2012	2011
Annual Required Contribution (ARC):	\$ 60,406	\$ 42,765
Interest on Net OPEB Obligation	2,121	1,617
Adjustment to ARC	<u>(4,633)</u>	<u>(2,180)</u>
Annual OPEB Cost	57,894	42,202
Contributions during the year	<u>54,295</u>	<u>31,008</u>
Net OPEB Obligation	3,599	11,194
Net OPEB - Beginning of the Year	<u>47,133</u>	<u>35,939</u>
Net OPEB - End of the Year	<u>\$ 50,732</u>	<u>\$ 47,133</u>
Percentage Contributed	<u>94%</u>	<u>73%</u>

BPU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012, 2011, and 2010 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2012	\$ 57,894	\$ 54,295	94%	\$ 3,599
December 31, 2011	\$ 42,202	\$ 31,008	73%	\$ 11,194
December 31, 2010	\$ 42,433	\$ 28,482	67%	\$ 13,951

***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.



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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

**Funding Status (Continued)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/2012	\$ -	\$ 609,610	\$ 609,610	0%	\$ 2,818,770	21.6%

***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, 2012 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 2.50%. The annual healthcare cost trend rate is 8.00% initially, reduced incrementally to an ultimate rate of 5.00% after six years. The unfunded actuarial accrued liability is being amortized using a level dollar amount 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 the BPU Electric Department. Retail sales by the Electric Department are defined as energy sales expressed in kilowatt-hours (kWh) to BPU retail electric customers. For purposes of calculating the contribution amount, energy sales to BPU retail electric customers do not include sales to any City facilities or any energy usage by BPU departments. The monthly BPU contribution is a cash contribution to the City equal to \$0.0035 per kWh (for all customers except for the industrial customer whose rate is \$0.0030 per kWh) based on energy sales to retail electric customers in the previous month.

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 11 OPERATING TRANSFERS TO THE CITY OF BRAINERD (CONTINUED)**

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

**NOTE 12 MAJOR CUSTOMER**

During the years ended December 31, 2012 and 2011, net sales to one industrial customer totaled \$3,011,204 and \$2,625,995, representing 13.5% and 12.2% of total utility revenue, respectively. A concentration of BPU's accounts receivable from this one industrial customer at December 31, 2012 and 2011, consisted of approximately 10% and 12%, 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.

**NOTE 14 SUBSEQUENT EVENT**

In April 2013, BPU's industrial customer will cease operations at it Brainerd's plant. The financial impact to BPU's operations is not known at this time.

**THIS PAGE INTENTIONALLY LEFT BLANK**

## REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES  
 BRAINERD, MINNESOTA  
 SCHEDULE OF FUNDING PROGRESS OTHER POSTEMPLOYMENT BENEFIT PLAN  
 YEAR ENDED DECEMBER 31, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/2012	\$ -	\$ 609,610	\$ 609,610	0%	\$ 2,818,770	21.6%
01/01/2009	\$ -	\$ 438,939	\$ 438,939	0%	\$ 2,477,422	17.7%

## **SUPPLEMENTARY INFORMATION**

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING STATEMENT OF NET POSITION BY DEPARTMENT  
DECEMBER 31, 2012  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)**

ASSETS	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER TREATMENT</u>
<b>CAPITAL ASSETS</b>			
Construction in Progress	\$ -	\$ 71,532	\$ -
In Service	30,874,481	15,814,024	36,328,797
Total Investment in Capital Assets	<u>30,874,481</u>	<u>15,885,556</u>	<u>36,328,797</u>
Less: Accumulated Depreciation	(12,556,273)	(7,348,828)	(5,707,686)
Net Capital Assets	<u>18,318,208</u>	<u>8,536,728</u>	<u>30,621,111</u>
<b>RESTRICTED ASSETS</b>			
Cash and Investments			
Customer Deposits	243,614	-	-
City of Brainerd Contribution	62,011	81,483	88,119
Conservation Incentive Program	388,411	-	-
Debt Service Reserve	1,675,473	-	1,314,871
Total Restricted Cash and Investments	<u>2,369,509</u>	<u>81,483</u>	<u>1,402,990</u>
Notes Receivable	-	-	7,990,999
Notes Receivable - Interest	-	-	93,200
Total Restricted Assets	<u>2,369,509</u>	<u>81,483</u>	<u>9,487,189</u>
<b>CURRENT ASSETS</b>			
Cash and Investments	2,232,529	506,940	4,247,217
Accounts Receivable	2,224,256	227,944	393,100
Due from Power Supplier	35,429	-	-
Interest Receivable	35,465	-	-
Due from the City of Brainerd	27,500	5,133	78,257
Inventory	948,804	71,051	-
Prepaid Expenses	66,193	3,053	2,095
Total Current Assets	<u>5,570,176</u>	<u>814,121</u>	<u>4,720,669</u>
<b>OTHER ASSETS</b>			
Service Territory Acquisitions, Net of			
Accumulated Amortization	22,158	-	-
Deferred Charges	107,221	-	28,710
Total Other Assets	<u>129,379</u>	<u>-</u>	<u>28,710</u>
Total Assets	<u>\$ 26,387,272</u>	<u>\$ 9,432,332</u>	<u>\$ 44,857,679</u>

TOTALS

2012	2011
\$ 71,532	\$ -
<u>83,017,302</u>	<u>81,331,163</u>
83,088,834	81,331,163
<u>(25,612,787)</u>	<u>(23,009,591)</u>
57,476,047	58,321,572
243,614	226,899
231,613	148,976
388,411	244,154
<u>2,990,344</u>	<u>2,983,359</u>
3,853,982	3,603,388
7,990,999	8,416,333
<u>93,200</u>	<u>96,900</u>
11,938,181	12,116,621
6,986,686	8,279,870
2,845,300	2,714,026
35,429	25,714
35,465	59,282
110,890	110,422
1,019,855	1,081,406
<u>71,341</u>	<u>96,892</u>
11,104,966	12,367,612
22,158	29,621
<u>135,931</u>	<u>149,871</u>
158,089	179,492
<u>\$ 80,677,283</u>	<u>\$ 82,985,297</u>



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING STATEMENT OF NET POSITION BY DEPARTMENT (CONTINUED)  
DECEMBER 31, 2012  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)**

LIABILITIES AND NET POSITION	ELECTRIC	WATER	WASTEWATER TREATMENT
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 10,831,562	\$ 8,536,728	\$ 6,648,112
Restricted for			
City of Brainerd Contribution	62,011	81,483	88,119
Debt Service	857,920	-	9,119,570
Unrestricted	3,702,787	448,709	4,394,869
Total Net Position	<u>15,454,280</u>	<u>9,066,920</u>	<u>20,250,670</u>
<b>LONG-TERM LIABILITIES</b>			
Electric Utility Revenue Bonds Payable	7,600,000	-	-
General Obligation Sewer Revenue Notes Payable	-	-	839,000
General Obligation Build America Bonds Payable	-	-	21,819,000
Compensated Absences	343,494	182,340	130,526
Other Postemployment Benefit Obligation	30,440	10,146	10,146
Total Long-Term Liabilities	<u>7,973,934</u>	<u>192,486</u>	<u>22,798,672</u>
<b>CURRENT LIABILITIES</b>			
Accounts Payable	1,368,279	21,987	75,108
Electric Utility Revenue Bonds Payable	675,000	-	-
General Obligation Sewer Revenue Notes Payable	-	-	198,000
General Obligation Build America Bonds Payable	-	-	1,117,000
Capital Lease Payable	-	-	-
Payable to City of Brainerd	62,011	81,483	88,119
Accrued Expenses			
Salaries and Withholding Taxes	130,148	67,379	50,607
Sales Taxes	62,395	2,077	3
Current Liabilities Payable from Restricted Assets:			
Bond Interest	29,200	-	279,500
Conservation Incentive Program Payable	388,411	-	-
Customer Deposits	243,614	-	-
Total Current Liabilities	<u>2,959,058</u>	<u>172,926</u>	<u>1,808,337</u>
Total Liabilities	<u>10,932,992</u>	<u>365,412</u>	<u>24,607,009</u>
Total Liabilities and Net Position	<u>\$ 26,387,272</u>	<u>\$ 9,432,332</u>	<u>\$ 44,857,679</u>

TOTALS

2012	2011
\$ 26,016,402	\$ 24,972,851
231,613	153,994
9,977,490	10,324,401
8,546,365	9,910,390
<u>44,771,870</u>	<u>45,361,636</u>
7,600,000	8,275,000
839,000	1,037,000
21,819,000	22,936,000
656,360	618,247
50,732	47,133
<u>30,965,092</u>	<u>32,913,380</u>
1,465,374	1,480,853
675,000	650,000
198,000	194,000
1,117,000	1,082,000
-	25,000
231,613	153,994
248,134	261,145
64,475	70,324
308,700	321,912
388,411	244,154
243,614	226,899
<u>4,940,321</u>	<u>4,710,281</u>
<u>35,905,413</u>	<u>37,623,661</u>
<u>\$ 80,677,283</u>	<u>\$ 82,985,297</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BY DEPARTMENT  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2011)**

	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER TREATMENT</u>
<b>OPERATING REVENUES</b>			
Utility Revenues			
Residential	\$ 4,335,056	\$ 980,353	\$ 1,240,931
Commercial	5,478,709	861,137	1,053,057
Large Commercial	4,337,511	-	-
Industrial	2,993,945	-	-
City of Brainerd	310,853	67,039	9,614
Internal Use	597,944	60,065	358
Total Utility Revenues	<u>18,054,018</u>	<u>1,968,594</u>	<u>2,303,960</u>
Other Operating Revenues			
Penalties	97,813	16,265	24,296
Other	226,169	35,466	5,538
Total Other Operating Revenues	<u>323,982</u>	<u>51,731</u>	<u>29,834</u>
Total Operating Revenues	18,378,000	2,020,325	2,333,794
<b>OPERATING EXPENSES</b>			
Production and Treatment			
Salaries and Wages	-	235,307	299,640
Purchased Services	-	101,309	506,703
Supplies and Maintenance	-	66,285	66,343
Employee Benefits	-	72,834	89,974
Other Charges	-	974	11,888
Total Production Expenses	<u>-</u>	<u>476,709</u>	<u>974,548</u>
Purchased Power	14,498,072	-	-
Distribution and Collection			
Salaries and Wages	728,775	211,921	105,683
Purchased Services	164,845	99,009	119,615
Supplies and Maintenance	105,320	40,891	19,622
Employee Benefits	291,100	84,216	31,897
Other Charges	15,906	9,258	1,500
Total Distribution and Collection Expenses	<u>1,305,946</u>	<u>445,295</u>	<u>278,317</u>

TOTALS

2012	2011
\$ 6,556,340	\$ 6,386,247
7,392,903	7,108,568
4,337,511	4,402,692
2,993,945	2,608,767
387,506	450,394
658,367	612,402
22,326,572	21,569,070
138,374	119,822
267,173	241,431
405,547	361,253
22,732,119	21,930,323
534,947	521,890
608,012	644,962
132,628	140,824
162,808	160,096
12,862	14,839
1,451,257	1,482,611
14,498,072	14,488,488
1,046,379	1,026,474
383,469	527,334
165,833	203,607
407,213	405,837
26,664	53,252
2,029,558	2,216,504

**BRAINERD PUBLIC UTILITIES  
 BRAINERD, MINNESOTA  
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 BY DEPARTMENT (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2011)**

	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER TREATMENT</u>
<b>OPERATING EXPENSES (CONTINUED)</b>			
Administration			
Salaries and Wages	\$ 533,591	\$ 216,580	\$ 206,559
Purchased Services	160,665	61,353	46,172
Supplies and Maintenance	61,419	17,722	14,656
Insurance and Bonds	51,611	31,950	39,323
Employee Benefits	191,160	77,772	73,430
Other Charges	153,146	27,108	32,456
Total Administration Expenses	<u>1,151,592</u>	<u>432,485</u>	<u>412,596</u>
Depreciation and Amortization	<u>1,199,080</u>	<u>483,204</u>	<u>1,373,873</u>
Total Operating Expenses	<u>18,154,690</u>	<u>1,837,693</u>	<u>3,039,334</u>
<b>OPERATING INCOME (LOSS)</b>	223,310	182,632	(705,540)
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest Income - Investments	129,687	1,737	81,731
Interest Income - Notes Receivable	-	-	264,284
Interest Expense	(366,626)	-	(792,953)
Local Option Sales Tax	-	-	880,526
Federal Grant Revenue - Build America Bond	-	-	177,883
Other Grant Revenue	-	-	1,382
Gain (Loss) on Disposal of Capital Assets	12,799	-	32,541
Net Nonoperating Revenue (Expense)	<u>(224,140)</u>	<u>1,737</u>	<u>645,394</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	(830)	184,369	(60,146)
<b>CAPITAL CONTRIBUTIONS</b>	-	-	57,808
<b>TRANSFERS TO THE CITY</b>	<u>(770,967)</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ (771,797)</u>	<u>\$ 184,369</u>	<u>\$ (2,338)</u>

TOTALS

2012	2011
\$ 956,730	\$ 962,573
268,190	256,641
93,797	73,703
122,884	127,358
342,362	370,645
212,710	205,765
<u>1,996,673</u>	<u>1,996,685</u>
<u>3,056,157</u>	<u>3,351,258</u>
<u>23,031,717</u>	<u>23,535,546</u>
(299,598)	(1,605,223)
213,155	428,736
264,284	274,144
(1,159,579)	(1,213,757)
880,526	835,200
177,883	185,876
1,382	68,000
45,340	105,348
<u>422,991</u>	<u>683,547</u>
123,393	(921,676)
57,808	518,896
<u>(770,967)</u>	<u>(760,152)</u>
<u>\$ (589,766)</u>	<u>\$ (1,162,932)</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Cost			
	12/31/2011	Additions	Deductions	12/31/2012
<b>Electric Department</b>				
<u>Distribution</u>				
Land and Land Improvements	\$ 169,200	\$ 16,828	\$ -	\$ 186,028
Distribution System	24,233,567	1,352,114	375,895	25,209,786
Street and Security Lighting System	563,310	-	-	563,310
Machinery and Equipment	645,135	30,222	-	675,357
Transportation Equipment	1,258,498	-	80,000	1,178,498
Total Electric Department	26,869,710	1,399,164	455,895	27,812,979
<b>Water Department</b>				
<u>Production</u>				
Structures and Improvements	1,688,355	-	-	1,688,355
Wells, Pumps and Accessories	421,209	-	-	421,209
Water Treatment Plant Equipment	1,340,563	106,819	-	1,447,382
Total Production	3,450,127	106,819	-	3,556,946
<u>Distribution</u>				
Distribution System	10,462,383	159,954	-	10,622,337
Machinery and Equipment	250,215	4,443	-	254,658
Transportation Equipment	203,520	-	-	203,520
Total Water Distribution	10,916,118	164,397	-	11,080,515
Total Water Department	14,366,245	271,216	-	14,637,461
<b>Wastewater Treatment Department</b>				
Land and Land Improvements	35,485	-	1	35,484
Collection System	3,697,872	-	-	3,697,872
Treatment Facility	30,178,312	477,258	101,953	30,553,617
Machinery and Equipment	351,750	1,646	-	353,396
Transportation Equipment	124,115	-	-	124,115
Total Wastewater Treatment Department	34,387,534	478,904	101,954	34,764,484
<b>General Plant</b>				
Land and Land Improvements	1,552,904	-	-	1,552,904
Service Center	3,593,690	10,006	-	3,603,696
Furniture and Fixtures	382,507	-	-	382,507
Transportation Equipment	112,773	84,698	-	197,471
Storage Building	65,800	-	-	65,800
Total General Plant	5,707,674	94,704	-	5,802,378
Total Capital Assets in Service	81,331,163	2,243,988	557,849	83,017,302
Construction Work in Progress	-	1,293,178	1,221,646	71,532
Total Investment in Capital Assets	\$ 81,331,163	\$ 3,537,166	\$ 1,779,495	\$ 83,088,834

Composite Depreciation Rates	Accumulated Depreciation				Percent of Asset Balance
	12/31/2011	Additions	Deductions	12/31/2012	
0.0%	\$ -	\$ -	\$ -	\$ -	0.0%
3.7%	8,519,025	932,190	284,322	9,166,893	36.4%
4.4%	196,267	24,815	-	221,082	39.2%
5.7%	482,873	38,507	-	521,380	77.2%
5.6%	856,191	65,536	80,000	841,727	71.4%
3.8%	10,054,356	1,061,048	364,322	10,751,082	38.7%
1.7%	1,511,989	29,156	-	1,541,145	91.3%
2.9%	344,369	12,316	-	356,685	84.7%
4.5%	434,628	65,798	-	500,426	34.6%
3.0%	2,290,986	107,270	-	2,398,256	67.4%
3.0%	3,551,158	318,133	-	3,869,291	36.4%
4.0%	175,154	10,062	-	185,216	72.7%
1.6%	200,357	3,163	-	203,520	100.0%
3.0%	3,926,669	331,358	-	4,258,027	38.4%
3.0%	6,217,655	438,628	-	6,656,283	45.5%
-	-	-	-	-	0.0%
2.5%	2,350,620	91,057	-	2,441,677	66.0%
4.0%	1,468,015	1,226,404	64,720	2,629,699	8.6%
7.2%	219,606	25,613	-	245,219	69.4%
1.2%	122,582	1,532	-	124,114	100.0%
3.9%	4,160,823	1,344,606	64,720	5,440,709	15.7%
2.0%	302,231	31,512	-	333,743	21.5%
3.7%	1,774,882	132,649	-	1,907,531	52.9%
5.2%	340,537	19,800	-	360,337	94.2%
0.4%	112,773	705	-	113,478	57.5%
5.0%	46,334	3,290	-	49,624	75.4%
3.2%	2,576,757	187,956	-	2,764,713	47.6%
3.7%	23,009,591	3,032,238	429,042	25,612,787	30.9%
-	-	-	-	-	-
3.6%	<u>\$ 23,009,591</u>	<u>\$ 3,032,238</u>	<u>\$ 429,042</u>	<u>\$ 25,612,787</u>	30.8%



**THIS PAGE INTENTIONALLY LEFT BLANK**

## OTHER INFORMATION

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
ELECTRIC DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2003 THROUGH 2012  
(UNAUDITED)**

	2003	2004	2005	2006	2007	2008
<b>Electric Capital Assets</b>						
In Service (Thousands)	\$ 16,622	\$ 16,890	\$ 18,371	\$ 19,402	\$ 20,851	\$ 25,166
Investment Per Meter	\$ 2,311	\$ 2,278	\$ 2,412	\$ 2,512	\$ 2,698	\$ 3,228
Investment Per Dollar of Electric Revenue	\$ 1.38	\$ 1.37	\$ 1.30	\$ 1.29	\$ 1.22	\$ 1.45
<b>Accumulated Depreciation (Thousands)</b>	\$ 8,576	\$ 8,207	\$ 8,818	\$ 9,582	\$ 10,241	\$ 9,404
Percent of Capital Assets	51.6%	48.6%	48.0%	49.4%	49.1%	37.4%
Annual Depreciation (Thousands)	\$ 717	\$ 768	\$ 825	\$ 820	\$ 851	\$ 884
Percent of Annual Depreciation to Average Capital Assets in Service	4.4%	4.6%	4.7%	4.3%	4.2%	3.8%
<b>Number of Meters (Year-End)</b>	7,192	7,415	7,616	7,723	7,728	7,796
<b>Cost of Power</b>						
KWH Purchased (Thousands)	222,238	197,290	247,648	259,671	262,543	256,066
Total Cost (Thousands)	\$ 8,161	\$ 7,991	\$ 9,476	\$ 10,272	\$ 12,112	\$ 11,588
Cost Per KWH Purchased (Cents)	3.67	4.05	3.82	3.96	4.61	4.53
Percent of System Loss	6.1%	5.6%	5.2%	4.7%	4.8%	5.6%
Average Load Factor for Year	69.7%	67.5%	72.3%	73.0%	71.4%	72.0%
<b>Electric Revenue</b>						
KWH Sold (Thousands)	208,609	186,328	234,765	247,585	249,974	241,640
Electric Utility Revenue (Thousands)	\$ 12,075	\$ 12,297	\$ 14,101	\$ 15,051	\$ 17,149	\$ 17,307
Per KWH Sold (Cents)	5.79	6.60	6.01	6.08	6.86	7.16
Gross Margin Per KWH (Cents)	2.12	2.55	2.19	2.12	2.25	2.63
<b>Operating Income (Loss) (Thousands)</b>	\$ 1,419	\$ 1,566	\$ 2,029	\$ 1,643	\$ 1,989	\$ 2,417
<b>Change in Net Position (Thousands)</b>	\$ (557)	\$ 1,019	\$ 1,423	\$ 1,129	\$ 1,579	\$ 1,703

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

2009	2010	2011	2012
\$ 28,142	\$ 29,559	\$ 29,876	\$ 30,874
\$ 3,607	\$ 3,778	\$ 3,825	\$ 3,948
\$ 1.75	\$ 1.79	\$ 1.70	\$ 1.71
\$ 10,409	\$ 11,380	\$ 11,743	\$ 12,556
37.0%	38.5%	39.3%	40.7%
\$ 1,086	\$ 1,137	\$ 1,191	\$ 1,199
4.1%	3.9%	4.0%	4.0%
7,801	7,824	7,810	7,820
230,564	239,580	242,241	247,092
\$ 11,753	\$ 12,873	\$ 14,488	\$ 14,498
5.10	5.37	5.98	5.87
4.2%	3.7%	3.3%	2.7%
70.2%	70.3%	71.0%	72.4%
221,000	230,756	234,226	240,530
\$ 16,079	\$ 16,485	\$ 17,559	\$ 18,054
7.28	7.14	7.50	7.51
2.18	1.77	1.52	1.64
\$ 874	\$ 180	\$ (459)	\$ 223
\$ 45	\$ (882)	\$ (1,217)	\$ (772)

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
WATER DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2003 THROUGH 2012  
(UNAUDITED)**

	2003	2004	2005	2006	2007	2008
<b>Water Capital Assets</b>						
In Service (Thousands)	\$ 7,730	\$ 9,097	\$ 12,070	\$ 12,689	\$ 13,817	\$ 14,963
Investment Per Meter	\$ 1,764	\$ 2,017	\$ 2,614	\$ 2,712	\$ 2,962	\$ 3,244
Investment Per Dollar of Water Revenue	\$ 6.41	\$ 7.27	\$ 8.59	\$ 7.94	\$ 7.65	\$ 9.30
<b>Accumulated Depreciation (Thousands)</b>	\$ 4,519	\$ 4,546	\$ 5,078	\$ 5,539	\$ 5,950	\$ 6,229
Percent of Capital Assets	58.5%	50.0%	45.8%	43.7%	43.1%	41.6%
Annual Depreciation (Thousands)	\$ 374	\$ 399	\$ 510	\$ 509	\$ 465	\$ 471
Percent of Annual Depreciation to Average Capital Assets in Service	4.8%	4.7%	4.6%	4.1%	3.5%	3.3%
<b>Number of Meters (Year-End)</b>	4,382	4,511	4,617	4,679	4,664	4,613
<b>Cost of Water Production</b>						
Gallons Pumped into Distribution System (Thousands)	713,447	687,083	685,547	817,520	750,756	540,542
Total Cost (Thousands)	\$ 233	\$ 291	\$ 314	\$ 419	\$ 419	\$ 432
Cost Per Thousand						
Gallons Pumped	\$ 0.33	\$ 0.42	\$ 0.46	\$ 0.51	\$ 0.55	\$ 0.80
Percent of System Loss	18.4%	15.4%	13.7%	11.2%	9.7%	10.5%
<b>Water Revenue</b>						
Gallons Sold (Thousands)	582,241	581,263	591,740	726,260	678,254	483,738
Water Utility Revenue (Thousands)	\$ 1,206	\$ 1,251	\$ 1,405	\$ 1,598	\$ 1,806	\$ 1,609
Per Thousand Gallons Sold	\$ 2.07	\$ 2.15	\$ 2.37	\$ 2.20	\$ 2.66	\$ 3.33
Gross Margin Per Thousand Gallons Sold	\$ 1.74	\$ 1.73	\$ 1.91	\$ 1.69	\$ 2.11	\$ 2.53
<b>Operating Income (Loss) (Thousands)</b>	\$ (17)	\$ (80)	\$ (66)	\$ (18)	\$ 168	\$ (120)
<b>Change in Net Position (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.

2009	2010	2011	2012
\$ 15,464	\$ 15,384	\$ 15,524	\$ 15,814
\$ 3,355	\$ 3,326	\$ 3,359	\$ 3,407
\$ 9.88	\$ 8.92	\$ 8.86	\$ 8.03
\$ 6,623	\$ 6,476	\$ 6,866	\$ 7,349
42.8%	42.1%	44.2%	46.5%
\$ 470	\$ 489	\$ 493	\$ 483
3.1%	3.2%	3.2%	3.1%
4,609	4,626	4,621	4,642
568,687	514,258	500,195	497,183
\$ 435	\$ 410	\$ 466	\$ 477
\$ 0.76	\$ 0.80	\$ 0.93	\$ 0.96
20.9%	12.2%	12.9%	11.8%
449,823	451,584	435,473	438,609
\$ 1,565	\$ 1,725	\$ 1,752	\$ 1,969
\$ 3.48	\$ 3.82	\$ 4.02	\$ 4.49
\$ 2.72	\$ 3.02	\$ 3.09	\$ 3.53
\$ (172)	\$ (34)	\$ (66)	\$ 183
\$ (112)	\$ (171)	\$ (34)	\$ 184

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
WASTEWATER TREATMENT DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2003 THROUGH 2012  
(UNAUDITED)**

	2003	2004	2005	2006	2007	2008
<b>Wastewater Treatment Capital Assets</b>						
In Service (Thousands)	\$ 12,932	\$ 12,868	\$ 13,042	\$ 13,179	\$ 13,223	\$ 13,501
Investment Per Account	\$ 2,962	\$ 2,888	\$ 2,850	\$ 2,851	\$ 2,867	\$ 2,958
Investment Per Dollar of Wastewater Treatment Revenue	\$ 12.84	\$ 12.44	\$ 11.24	\$ 9.05	\$ 7.90	\$ 6.55
<b>Accumulated Depreciation (Thousands)</b>	\$ 6,764	\$ 6,724	\$ 7,061	\$ 7,801	\$ 8,559	\$ 9,076
Percent of Capital Assets	52.3%	52.3%	54.1%	59.2%	64.7%	67.2%
Annual Depreciation (Thousands)	\$ 353	\$ 368	\$ 393	\$ 739	\$ 770	\$ 763
Percent of Annual Depreciation to Average Capital Assets in Service	2.7%	2.8%	3.0%	5.6%	5.8%	5.7%
<b>Number of Accounts (Year-End)</b>	4,366	4,456	4,576	4,622	4,612	4,564
<b>Cost of Wastewater Treatment</b>						
Flow in Gallons Processed (Thousands)	958,428	830,959	887,076	858,830	751,025	762,208
Total Treatment Cost (Thousands)	\$ 334	\$ 435	\$ 405	\$ 402	\$ 505	\$ 506
Cost Per Thousand Gallons Processed	\$ 0.35	\$ 0.52	\$ 0.46	\$ 0.47	\$ 0.67	\$ 0.66
Percent of System Loss	29.0%	26.3%	29.8%	24.9%	17.2%	15.7%
<b>Wastewater Treatment Revenue</b>						
Flow in Gallons Sold (Thousands)	680,271	612,370	622,729	644,675	621,604	642,762
Wastewater Treatment Utility Revenue (Thousands)	\$ 1,007	\$ 1,034	\$ 1,160	\$ 1,457	\$ 1,673	\$ 2,062
Per Thousand Gallons Sold	\$ 1.48	\$ 1.69	\$ 1.86	\$ 2.26	\$ 2.69	\$ 3.21
Gross Margin Per Thousand Gallons Sold	\$ 1.13	\$ 1.17	\$ 1.40	\$ 1.79	\$ 2.02	\$ 2.55
<b>Operating Income (Loss) (Thousands)</b>	\$ (35)	\$ (255)	\$ (126)	\$ (247)	\$ (271)	\$ 95
<b>Change in Net Position (Thousands)</b>	\$ 8	\$ (218)	\$ (79)	\$ (183)	\$ 300	\$ 927

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

2009	2010	2011	2012
\$ 14,299	\$ 26,975	\$ 35,931	\$ 36,329
\$ 3,134	\$ 5,901	\$ 7,862	\$ 7,908
\$ 6.76	\$ 12.34	\$ 15.91	\$ 15.77
\$ 10,023	\$ 5,402	\$ 4,401	\$ 5,708
70.1%	20.0%	12.2%	15.7%
\$ 1,056	\$ 986	\$ 1,644	\$ 1,374
7.6%	4.8%	5.2%	3.8%
4,562	4,571	4,570	4,594
765,652	675,928	723,764	725,787
\$ 567	\$ 638	\$ 1,016	\$ 975
\$ 0.74	\$ 0.94	\$ 1.40	\$ 1.34
16.1%	16.1%	24.7%	24.6%
642,413	567,138	545,138	547,053
\$ 2,115	\$ 2,186	\$ 2,258	\$ 2,304
\$ 3.29	\$ 3.85	\$ 4.14	\$ 4.21
\$ 2.55	\$ 2.91	\$ 2.74	\$ 2.87
\$ (142)	\$ (101)	\$ (1,079)	\$ (706)
\$ 657	\$ 840	\$ (402)	\$ (2)



**THIS PAGE INTENTIONALLY LEFT BLANK**

## OTHER REPORTS SECTION



CliftonLarsonAllen

CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

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

Brainerd Public Utilities Commission  
Brainerd Public Utilities  
Brainerd, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise BPU's basic financial statements, and have issued our report date thereon dated May 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BPU's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BPU's internal control. Accordingly, we do not express an opinion on the effectiveness of BPU's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and recommendations that we consider to be a significant deficiency, 2012-1.

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*.

BPU's Response to Findings

BPU's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. BPU's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 16, 2013



CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Brainerd Public Utilities Commission  
Brainerd Public Utilities  
Brainerd, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2012, and the related notes to the financial statements, which collectively comprise BPU's basic financial statements as listed in the table of contents have issued our report thereon dated May 16, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Brainerd Public Utilities failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Brainerd Public Utilities noncompliance with the above-referenced provisions.

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

A handwritten signature in cursive script that reads 'CliftonLarsonAllen LLP'.

**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 16, 2013

**BRAINERD PUBLIC UTILITIES  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
DECEMBER 31, 2012**

**SIGNIFICANT DEFICIENCY**

2012-1    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.

**Management's Response:** Management believes at the present time the cost of reconciling inventory records to physical inventory on a monthly basis or implementing a perpetual inventory system is greater than the benefit derived.