

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
FINANCIAL REPORT
DECEMBER 31, 2014 AND 2013**

**BRAINERD PUBLIC UTILITIES
TABLE OF CONTENTS
DECEMBER 31, 2014 AND 2013**

INTRODUCTORY SECTION

Organizational Data..... 1

FINANCIAL SECTION

Independent Auditors' Report..... 2
Management's Discussion and Analysis..... 5
Statements of Net Position..... 14
Statements of Revenues, Expenses and Changes in Net Position 16
Statements of Cash Flows..... 18
Notes to Financial Statements..... 20

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress Other Postemployment Benefit Plan..... 38

SUPPLEMENTARY INFORMATION

Combining Statements of Net Position by Department 39
Combining Statements of Revenues, Expenses and Changes
in Net Position by Department..... 43
Schedule of Capital Assets and Accumulated Depreciation..... 47

OTHER INFORMATION

Electric Department Statistics..... 49
Water Department Statistics..... 51
Wastewater Treatment Department Statistics..... 53

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..... 55
Independent Auditors' Report on Minnesota Legal Compliance..... 57
Schedule of Findings and Recommendations..... 58

INTRODUCTORY SECTION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ORGANIZATIONAL DATA
DECEMBER 31, 2014**

COMMISSION

		<u>Term Expires December 31,</u>
President	Don Samuelson	2018
Vice President	Lucy Nesheim	2017
Commission Member	Don Sievek	2014
Commission Member	William Wroolie	2016
Commission Member	Mark O'Day	2015

ADMINISTRATION

Superintendent of Utilities	Scott Magnuson
Commission Secretary	Todd Wicklund
Electric Line Supervisor	Trent Hawkinson
Wastewater Treatment Plant Supervisor	Mike Larson
Technology Supervisor	Scott Sjolund
Accounting Supervisor	Julie Batters

FINANCIAL SECTION



CliftonLarsonAllen LLP
CLAconnect.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, 2014 and 2013, 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 BPU'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, 2014 and 2013, 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.

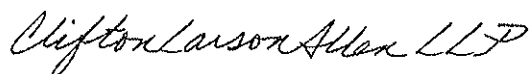
This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2015, 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 6, 2015

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2014 AND 2013
(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, 2014 and 2013. 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, 2014 by \$44,954,095 (net position) which is an increase of \$765,276 or 1.7% from 2013 to 2014. Of this amount, \$10,989,631 is unrestricted net position that may be used to meet BPU's ongoing obligations to customers and creditors.
- Total assets increased by \$7,153,416 or 9.2% from 2013 to 2014. Cash and investments increased by \$2,587,092 or 29.1%, capital asset additions exceeded accumulated depreciation of capital assets by \$3,013,540 or 5.3%, and bonds receivable increased \$1,788,901 or 100% from 2013 to 2014.
- Total liabilities increased by \$6,388,140 or 19.1% from 2013 to 2014. Bonds and notes payable increased by \$6,048,785 or 20.0% from 2013 to 2014.
- Unrestricted net position increased by \$3,544,547 or 47.6% from 2013 to 2014.
- Total operating revenue increased \$973,009 or 4.5%, from the prior year.
- Total operating expenses decreased \$3,284 or 0.2%, from the prior year.

Overview of the Financial Statements

BPU provides electric generation and 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, 2014 AND 2013
(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 70.7% and 73.3% of total assets as of December 31, 2014 and 2013, respectively. Long-term liabilities represent 40.8% and 37.2% of total liabilities and net position as of December 31, 2014 and 2013, respectively. Total net position increased 1.7% and decreased 1.3% as of December 31, 2014 and 2013, respectively.

The largest portion of BPU's net position (55.1%), at December 31, 2014, 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 2014, \$9,214,574 (20.5%) of BPU's net position represents resources that are restricted. The remaining balance of unrestricted net position of \$10,989,631 (24.4%) may be used to meet BPU ongoing obligations.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2014 AND 2013
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Net Position

	December 31,			Change	
	2014	2013	2012	2014 to 2013	2013 to 2012
Net Capital Assets	\$ 59,900,837	\$ 56,887,297	\$ 57,476,047	\$ 3,013,540	\$ (588,750)
Restricted Assets	12,705,749	11,141,358	11,938,181	1,564,391	(796,823)
Current Assets	11,852,197	9,257,359	11,104,966	2,594,838	(1,847,607)
Other Assets	273,743	293,096	158,089	(19,353)	135,007
Total Assets	\$ 84,732,526	\$ 77,579,110	\$ 80,677,283	\$ 7,153,416	\$ (3,098,173)
Current Liabilities	\$ 5,212,777	\$ 4,543,642	\$ 4,940,321	\$ 669,135	\$ (396,679)
Long-Term Liabilities	34,565,654	28,846,649	30,965,092	5,719,005	(2,118,443)
Total Liabilities	39,778,431	33,390,291	35,905,413	6,388,140	(2,515,122)
Net Investment in Capital Assets					
Assets	24,749,890	27,353,344	26,016,402	(2,603,454)	1,336,942
Restricted Net Position	9,214,574	9,390,391	10,209,103	(175,817)	(818,712)
Unrestricted Net Position	10,989,631	7,445,084	8,546,365	3,544,547	(1,101,281)
Total Net Position	44,954,095	44,188,819	44,771,870	765,276	(583,051)
Total Liabilities and Net Position	\$ 84,732,526	\$ 77,579,110	\$ 80,677,283	\$ 7,153,416	\$ (3,098,173)

Statements of Revenues, Expenses and Changes in Net Position

2014

Total operating revenues for 2014 increased \$973,009 or 4.5% from prior year. Electric Department increased \$1,014,369 or 5.9% from prior year primarily due to rate adjustments made during the year. Water Department decreased \$64,188 or 3.0% from prior year primarily due to rate adjustments made during the year. Wastewater Treatment Department increased \$22,828 or 1.0% from prior year.

Total operating expenses for 2014 decreased \$3,284 or 0.02% from prior year. Operating expenses for Electric Department decreased \$82,593 or 0.5% from prior year, Water Department increased \$68,609 or 3.7% from prior year, and Wastewater Treatment Department increased \$10,700 or 0.3% from prior year.

Net nonoperating revenue for 2014 increased \$333,478 from prior year. Of this amount, interest income from investments increased \$522,571 which was primarily due to increase in fair value of investments of approximately \$239,000 at year end. Interest income on notes receivable with City of Baxter related to the expansion of the wastewater treatment facility decreased \$13,576, interest expense on debt service decreased \$19,328, local option sales tax proceeds increased \$5,386, federal grant revenue decreased \$20,984, losses on disposal of capital assets decreased \$23,243, and bond issuance costs net of bond premiums increased \$202,490.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2014 AND 2013
(UNAUDITED)**

Financial Analysis (Continued)

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

2013

Total operating revenues for 2013 decreased \$989,633 or 4.4% from prior year. Electric Department decreased \$1,109,141 or 6.0% from prior year primarily due to industrial customer ceasing operations in May of 2013. Water Department increased \$140,935 or 7.0% from prior year primarily due to rate adjustments made during the year. Wastewater Treatment Department decreased \$21,427 or 0.9% from prior year.

Total operating expenses for 2013 decreased \$1,306,178 or 5.7% from prior year. The primary reason for the decline was purchased power decreasing by \$1,617,448 or 11.1% which was the result of the industrial customer ceasing operations during 2013.

Net nonoperating revenue for 2013 decreased \$372,708 from prior year. Of this amount, interest income from investments decreased \$337,164 which was primarily due to decrease in fair value of investments of approximately \$305,000 at year end. Interest income on notes receivable with City of Baxter related to the expansion of the wastewater treatment facility decreased \$14,435, interest expense on debt service decreased \$69,195, local option sales tax proceeds decreased \$4,884, federal grant revenue decreased \$16,837, gains on disposal of capital assets decreased \$68,583.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2014 AND 2013
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position

	For the Year Ended December 31,			Change	
	2014	2013	2012	2014 to 2013	2013 to 2012
OPERATING REVENUES					
Electric	\$ 18,283,228	\$ 17,268,859	\$ 18,378,000	\$ 1,014,369	\$ (1,109,141)
Water	2,097,072	2,161,260	2,020,325	(64,188)	140,935
Wastewater Treatment	2,335,195	2,312,367	2,333,794	22,828	(21,427)
Total Operating Revenue	22,715,495	21,742,486	22,732,119	973,009	(989,633)
OPERATING EXPENSES					
Production and Treatment	1,885,239	1,559,671	1,451,257	325,568	108,414
Purchased Power	12,269,833	12,880,626	14,498,072	(610,793)	(1,617,446)
Distribution and Collection	2,120,314	2,068,049	2,029,558	52,265	38,491
Administration	2,146,061	1,953,287	1,996,673	192,774	(43,386)
Depreciation and Amortization	3,300,808	3,263,906	3,056,157	36,902	207,749
Total Operating Expenses	21,722,255	21,725,539	23,031,717	(3,284)	(1,306,178)
OPERATING INCOME	993,240	16,947	(299,598)	976,293	316,545
NONOPERATING REVENUE (EXPENSE)					
Interest Income - Investments	398,562	(124,009)	213,155	522,571	(337,164)
Interest Income - Notes Receivable	236,273	249,849	264,284	(13,576)	(14,435)
Bond Premium	3,839	-	-	3,839	-
Interest Expense	(1,071,056)	(1,090,384)	(1,159,579)	19,328	69,195
Local Option Sales Tax	881,028	875,642	880,526	5,386	(4,884)
Federal Grant Revenue -					
Build America Bond	141,444	162,428	177,883	(20,984)	(15,455)
Other Grants	-	-	1,382	-	(1,382)
Bond Issuance Costs	(206,329)	-	-	(206,329)	-
Gain (Loss) on Disposal of Capital Assets	-	(23,243)	45,340	23,243	(68,583)
Net Nonoperating Revenue	383,761	50,283	422,991	333,478	(372,708)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	1,377,001	67,230	123,393	1,309,771	(56,163)
CAPITAL CONTRIBUTIONS	-	-	57,808	-	(57,808)
TRANSFERS TO THE CITY	(611,725)	(650,281)	(770,967)	38,556	120,686
CHANGE IN NET ASSETS	765,276	(583,051)	(589,766)	1,348,327	6,715
Net Assets - Beginning	44,188,819	44,771,870	45,361,636	(583,051)	(589,766)
NET ASSETS - ENDING	<u>\$ 44,954,095</u>	<u>\$ 44,188,819</u>	<u>\$ 44,771,870</u>	<u>\$ 765,276</u>	<u>\$ (583,051)</u>

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2014 AND 2013
(UNAUDITED)**

Capital Assets

The following table summarizes capital assets, net of depreciation, as of December 31, 2014, 2013 and 2012.

Condensed Schedule of Capital Assets

	December 31,			2014 to	2013 to
	2014	2013	2012	2013	2012
Electric Department					
Generation System	\$ 2,412,432	\$ -	\$ -	\$ 2,412,432	\$ -
Distribution System	16,515,869	16,543,831	16,042,893	(27,962)	500,938
Street and Security Lighting System	299,363	318,028	342,228	(18,665)	(24,200)
Water Department					
Production Facilities	1,615,901	1,197,244	1,158,690	418,657	38,554
Distribution System	7,475,997	6,604,756	6,753,046	871,241	(148,290)
Wastewater Treatment Department					
Lift Station Facilities	1,167,598	1,220,406	1,256,195	(52,808)	(35,789)
Treatment Facilities	25,463,937	26,715,441	27,923,918	(1,251,504)	(1,208,477)
Land and Land Improvements	1,621,572	1,358,123	1,440,673	263,449	(82,550)
Machinery and Equipment	408,439	454,858	331,596	(46,419)	123,262
Furniture and Fixtures	6,045	13,101	22,170	(7,056)	(9,069)
Transportation Equipment	475,420	348,316	420,765	127,104	(72,449)
Service Center	1,440,413	1,576,377	1,712,341	(135,964)	(135,964)
Construction in Progress	997,851	536,816	71,532	461,035	465,284
Total	\$ 59,900,837	\$ 56,887,297	\$ 57,476,047	\$ 3,013,540	\$ (588,750)

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

	2014	2013	2012
Additions and Transfers to Capital Assets			
Being Depreciated (By Department)			
Electric	\$ 3,864,007	\$ 1,660,255	\$ 1,399,164
Water	1,919,108	369,442	271,216
Wastewater Treatment	47,531	102,563	478,904
General Plant	-	-	94,704
	<u>5,830,646</u>	<u>2,132,260</u>	<u>2,243,988</u>
Additions to Construction in Progress	1,633,717	1,580,556	1,293,178
Transfers from Construction in Progress			
to Capital Assets Being Depreciated	(1,172,682)	(1,115,272)	(1,221,646)
Deletions and Transfers	-	(71,055)	(128,807)
Normal Annual Depreciation	(3,278,141)	(3,115,239)	(3,032,238)
Total	\$ 3,013,540	\$ (588,750)	\$ (845,525)

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2014 AND 2013
(UNAUDITED)**

Capital Assets (Continued)

Major capital asset transactions for 2014 and 2013 include the following:

	<u>2014</u>	<u>2013</u>
<u>Electric</u>		
Distribution Transformers and Metering Purchased	\$ 499,900	\$ 467,000
Expansion of Distribution Feeder System	281,600	734,100
Distribution System Improvements	246,700	296,200
Backyard Lineman	-	32,500
Catepillar Mini-Excavator	-	46,700
LED Lighting	5,800	-
Service Trucks	78,600	-
Hydroelectric Dam Acquisition	2,739,100	473,200
<u>Water</u>		
Acuisition of Meters and Valves	180,100	148,000
Filter Bed Improvements	106,200	95,600
Distribution System Improvements	164,800	87,200
Water Tower Improvements	955,000	-
Well Improvements	374,300	-
Central Station Air Compressor	12,500	-
Service Trucks	122,100	-
<u>Wastewater</u>		
Lift Station Improvements	43,400	53,600
Treatment Facility Improvements	-	41,400
<u>General Plant</u>		
Maintenance Equipment	12,300	-
<u>Construction in Progress</u>		
GIS Conversion Software	38,300	-
Hydroelectric Dam Apron Repair Project	832,800	-
Hydroelectric Dam Electric System Improvements	116,800	-
Wastewater Treatment Compressor	10,100	-
Water Treatment Plant Filter Bed Project	-	13,400
Water Service Truck Chassis	-	50,200

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,

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2014 AND 2013
(UNAUDITED)**

Debt Administration (Continued)

Series 2008, to the PFA, evidencing its obligation to repay the loan. The revenue note outstanding of the BPU is backed by the full faith and credit and taxing powers of the City of Brainerd and a pledge of net revenues of BPU.

In May 2009, the City of Brainerd, on behalf of BPU, entered into a project loan agreement in the amount of \$25,966,788 between the State of Minnesota, by and through the PFA and the BPU, for construction costs related to the expansion to the wastewater treatment facility. The City of Brainerd, on behalf of BPU, issued a General Obligation Build America Bond, Series 2009 (Wastewater Project), to the PFA, evidencing its obligation to repay the loan. The City has complied with all requirements of the American Reinvestment and Recovery Act (ARRA) to issue the Note as a Build America Bond (BAB) and the City has irrevocably elected to have the Note constitute a BAB and to have the direct pay tax credit provision of the ARRA apply to the Note. The bond outstanding of the BPU is backed by the full faith and credit and taxing powers of the City of Brainerd and a pledge of net revenues of BPU.

Electric Utility Revenue Bonds (Series 2014A) were issued in 2014 in the amount of \$6,070,000 for purchase of hydroelectric dam from Wausau Paper of Minnesota, LLC and including other major capital improvements to dam. 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.

Water Utility Revenue Bonds (Series 2015A) were issued in 2014 in the amount of \$1,700,000 for water distribution system improvements, including the rehabilitation of two elevated water towers and improvements to well equipment and pumps. The revenue bonds outstanding of the BPU are issued on behalf of BPU by the City of Brainerd and are by the full faith and credit and taxing powers of the City of Brainerd and a pledge of net revenues of BPU.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2014 AND 2013
(UNAUDITED)**

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 2014 Operating Budget Analysis and the 2015 Operating Budget approved by the Commission is presented as follows:

	2014 Budget	2014 Actual	Favorable (Unfavorable) Variance	2015 Budget
Utility Operating Revenue	\$ 21,186,400	\$ 22,366,273	\$ 1,179,873	\$ 22,932,000
Other Operating Revenue	299,400	349,222	49,822	298,200
Total Operating Revenue	21,485,800	22,715,495	1,229,695	23,230,200
Purchased Power	12,553,000	12,269,833	283,167	12,850,800
Other Operating Expense	6,090,900	6,151,614	(60,714)	6,601,600
Depreciation and Amortization Expense	3,233,400	3,300,808	(67,408)	3,397,800
Total Operating Expense	21,877,300	21,722,255	155,045	22,850,200
Operating Income	(391,500)	993,240	1,384,740	380,000
Net Nonoperating Revenue	317,600	383,761	66,161	160,800
Income Before Operating Transfers to City	(73,900)	1,377,001	1,450,901	540,800
Operating Transfers to the City	(612,000)	(611,725)	275	(624,000)
Change in Net Assets	\$ (685,900)	\$ 765,276	\$ 1,451,176	\$ (83,200)

BPU adjusted electric utility rates effective February 1, 2014. The primary reason for the adjustments is due to Minnesota Power, the wholesale power provider for BPU, raising its rates effective July 1, 2014, to wholesale municipal customers.

Requests for Information

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

THIS PAGE INTENTIONALLY LEFT BLANK

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

ASSETS	2014	2013
CAPITAL ASSETS		
In Service	\$ 90,167,455	\$ 84,862,754
Construction in Progress	997,851	536,816
Total Investment in Capital Assets	91,165,306	85,399,570
Less: Accumulated Depreciation	(31,264,469)	(28,512,273)
Net Capital Assets	59,900,837	56,887,297
RESTRICTED ASSETS		
Cash and Investments	3,733,082	3,500,492
Bonds and Notes Receivable	8,889,567	7,552,666
Notes Receivable - Interest	83,100	88,200
Total Restricted Assets	12,705,749	11,141,358
CURRENT ASSETS		
Cash and Investments	7,731,177	5,376,675
Accounts Receivable	2,873,381	2,689,871
Interest Receivable	17,449	23,911
Due from the City of Brainerd	117,523	115,865
Inventory	1,031,227	994,387
Prepaid Expenses	81,440	56,650
Total Current Assets	11,852,197	9,257,359
OTHER ASSETS		
Service Territory Acquisitions, Net of Accumulated Amortization	273,743	293,096
Total Assets	\$ 84,732,526	\$ 77,579,110

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2014 AND 2013**

LIABILITIES AND NET POSITION	2014	2013
NET POSITION		
Net Investment in Capital Assets	\$ 24,749,890	\$ 27,353,344
Restricted for Debt Service	9,214,574	9,390,391
Unrestricted	10,989,631	7,445,084
Total Net Position	44,954,095	44,188,819
LONG-TERM LIABILITIES		
Revenue Bonds Payable	13,944,785	6,895,000
General Obligation Sewer Revenue Notes Payable	429,000	636,000
General Obligation Build America Bonds Payable	19,476,000	20,666,000
Compensated Absences	699,234	613,825
Other Postemployment Benefit Obligation	16,635	35,824
Total Long-Term Liabilities	34,565,654	28,846,649
CURRENT LIABILITIES		
Accounts Payable	1,341,107	1,141,173
Electric Utility Revenue Bonds Payable	1,060,000	705,000
General Obligation Sewer Revenue Notes Payable	207,000	203,000
General Obligation Build America Bonds Payable	1,190,000	1,153,000
Accrued Expenses		
Salaries and Withholding Taxes	299,365	244,147
Sales Taxes	69,913	70,402
Current Liabilities Payable from Restricted Assets:		
Bond Interest	319,700	291,600
Payable to City of Brainerd	157,804	135,136
Conservation Incentive Program Payable	316,874	362,362
Customer Deposits	251,014	237,822
Total Current Liabilities	5,212,777	4,543,642
Total Liabilities	39,778,431	33,390,291
Total Liabilities and Net Position	\$ 84,732,526	\$ 77,579,110

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

OPERATING REVENUES	2014	2013
Utility Revenues		
Residential	\$ 7,543,361	\$ 7,067,576
Commercial	8,529,693	7,985,016
Large Commercial	4,914,978	4,490,711
Industrial	-	665,825
City of Brainerd	414,443	397,806
Internal Use	821,474	765,626
Minnesota Power	142,324	-
Total Utility Revenues	22,366,273	21,372,560
Other Operating Revenues		
Penalties	164,160	154,988
Other	185,062	214,938
Total Other Operating Revenues	349,222	369,926
Total Operating Revenues	22,715,495	21,742,486
OPERATING EXPENSES		
Generation, Production, and Treatment		
Salaries and Wages	728,866	531,158
Purchased Services	734,552	696,210
Supplies and Maintenance	159,229	171,697
Employee Benefits	231,772	149,320
Other Charges	30,820	11,286
Total Generation, Production, and Treatment Expenses	1,885,239	1,559,671
Purchased Power	12,269,833	12,880,626
Distribution and Collection		
Salaries and Wages	1,107,893	1,008,644
Purchased Services	409,622	483,058
Supplies and Maintenance	192,051	185,196
Employee Benefits	379,324	368,814
Other Charges	31,424	22,337
Total Distribution and Collection Expenses	2,120,314	2,068,049
Administration		
Salaries and Wages	952,930	955,687
Purchased Services	397,899	283,361
Supplies and Maintenance	92,975	86,952
Insurance and Bonds	118,465	93,138
Employee Benefits	394,971	319,175
Other Charges	188,821	214,974
Total Administration Expenses	2,146,061	1,953,287
Depreciation and Amortization	3,300,808	3,263,906
Total Operating Expenses	\$ 21,722,255	\$ 21,725,539

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
OPERATING INCOME	\$ 993,240	\$ 16,947
NONOPERATING REVENUE (EXPENSE)		
Interest Income - Investments	398,562	(124,009)
Interest Income - Notes Receivable	236,273	249,849
Bond Premium	3,839	-
Interest Expense	(1,071,056)	(1,090,384)
Local Option Sales Tax	881,028	875,642
Federal Grant Revenue - Build America Bond	141,444	162,428
Bond Issuance Costs	(206,329)	-
Loss on Disposal of Capital Assets	-	(23,243)
Net Nonoperating Revenue	383,761	50,283
INCOME BEFORE OPERATING TRANSFERS	1,377,001	67,230
TRANSFERS TO THE CITY	(611,725)	(650,281)
CHANGE IN NET POSITION	765,276	(583,051)
Net Position - Beginning	44,188,819	44,771,870
NET POSITION - ENDING	\$ 44,954,095	\$ 44,188,819

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 22,487,338	\$ 21,906,713
Cash Payments to Employees for Services	(2,649,062)	(2,542,011)
Cash Payments to Other Suppliers of Goods or Services	(15,722,582)	(16,181,992)
Net Cash Provided by Operating Activities	4,115,694	3,182,710
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Primary Government	(606,482)	(746,758)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to Utility Plant	(6,210,202)	(2,652,901)
Proceeds from Local Option Sales Tax	879,932	871,384
Principal Paid on Long-Term Debt	(2,061,000)	(1,990,000)
Interest Paid on Long-Term Debt	(1,235,700)	(1,107,484)
Proceeds from Revenue Bonds	6,214,944	-
Principal Received on Notes Receivable	452,000	438,333
Federal Grant Revenue - Build America Bond	152,744	165,528
Proceeds from Sale of Utility Plant	-	38,424
Net Cash Used by Capital and Related Financing Activities	(1,807,282)	(4,236,716)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	646,397	142,394
Purchase of Investments	-	(1,800,000)
Redemption of Investments	-	1,800,000
Net Cash Provided by Investing Activities	646,397	142,394
NET DECREASE IN CASH AND CASH EQUIVALENTS	2,348,327	(1,658,370)
Cash and Cash Equivalents - Beginning	3,910,818	5,569,188
CASH AND CASH EQUIVALENTS - ENDING	\$ 6,259,145	\$ 3,910,818

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 993,240	\$ 16,947
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	3,300,808	3,263,906
Revenue Reduced for Uncollectible Accounts	42,174	46,902
(Increase) Decrease in Assets:		
Accounts Receivable	(195,372)	154,712
Due from Power Supplier	-	35,429
Prepaid Expenses	(24,790)	14,691
Inventories	(36,840)	25,468
Increase (Decrease) in Liabilities:		
Accounts Payable	(52,179)	(288,001)
Accrued Liabilities	52,036	(3,852)
Conservation Incentive Program Payable	(45,488)	(26,049)
Accrued Compensated Absences	101,294	(42,535)
Other Postemployment Benefit Obligation	(19,189)	(14,908)
Net Cash Provided by Operating Activities	\$ 4,115,694	\$ 3,182,710
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and Investments - Current Assets	\$ 7,731,177	\$ 5,376,675
Cash and Investments - Restricted Assets	3,733,082	3,500,492
Cash and Investments - Balance Sheets	11,464,259	8,877,167
Less: Investments not Meeting the Definition of Cash Equivalents	5,205,114	4,966,349
Cash and Cash Equivalents - Ending	\$ 6,259,145	\$ 3,910,818
NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Utility Plant on Account	\$ (249,730)	\$ (34,617)
Net Increase (Decrease) in Fair Value of Investments	238,765	(305,131)

THIS PAGE INTENTIONALLY LEFT BLANK

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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, 2014 AND 2013**

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, 2014 and 2013 was \$1,071,056 and \$1,090,384, 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
Generation and 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, 2014 and 2013 was zero for both years.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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.

Revenue Recognition

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

Electric Power Costs

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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.

NOTE 2 CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2014 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Electric	\$ 29,323,866	\$ 3,864,007	\$ 94,787	\$ 33,093,086
Water	14,976,258	1,919,108	414,125	16,481,241
Wastewater Treatment	34,860,252	47,531	633	34,907,150
General Plant	5,702,378	-	16,400	5,685,978
Construction in Progress	536,816	1,633,717	1,172,682	997,851
	<u>85,399,570</u>	<u>7,464,363</u>	<u>1,698,627</u>	<u>91,165,306</u>
Accumulated Depreciation	<u>(28,512,273)</u>	<u>(3,278,141)</u>	<u>(525,945)</u>	<u>(31,264,469)</u>
Net Capital Assets	<u>\$ 56,887,297</u>	<u>\$ 4,186,222</u>	<u>\$ 1,172,682</u>	<u>\$ 59,900,837</u>

A summary of capital asset activity for the year ended December 31, 2013 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Electric	\$ 27,812,979	\$ 1,660,255	\$ 149,368	\$ 29,323,866
Water	14,637,461	369,442	30,645	14,976,258
Wastewater Treatment	34,764,484	102,563	6,795	34,860,252
General Plant	5,802,378	-	100,000	5,702,378
Construction in Progress	71,532	1,580,556	1,115,272	536,816
	<u>83,088,834</u>	<u>3,712,816</u>	<u>1,402,080</u>	<u>85,399,570</u>
Accumulated Depreciation	<u>(25,612,787)</u>	<u>(3,115,239)</u>	<u>(215,753)</u>	<u>(28,512,273)</u>
Net Capital Assets	<u>\$ 57,476,047</u>	<u>\$ 597,577</u>	<u>\$ 1,186,327</u>	<u>\$ 56,887,297</u>

Capital assets not being depreciated totaled \$1,578,914 and \$1,839,729 at December 31, 2014 and 2013, respectively.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 3 RESTRICTED ASSETS

Cash and Investments

At December 31, 2014 and 2013, restricted cash and investments consisted of the following:

	2014	2013
Customer Deposits	\$ 251,014	\$ 237,822
City of Brainerd Contribution	157,804	135,136
Conservation Incentive Program	316,874	362,362
Electric Utility Revenue Bonds Debt Service Reserve	2,027,100	1,779,105
General Obligation Revenue Notes and Bonds Debt Service Reserve	980,290	986,067
Total Restricted Cash and Investments	<u>\$ 3,733,082</u>	<u>\$ 3,500,492</u>

Customer Deposits are amounts restricted for refunds of customer security deposits. City of Brainerd Contribution is restricted by agreement with City for monthly operating transfer to City and payment of 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. Construction Fund Reserve represents net bond proceeds remaining to be used to pay costs of Electric Utility capital asset improvements.

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, 2014 AND 2013**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

Notes Receivable (Continued)

Note receivable activity for the year ended December 31, 2014, is as follows:

	<u>Note No.1</u>	<u>Note No.2</u>	<u>Total</u>
Beginning Balance	\$ 279,666	\$7,273,000	\$7,552,666
Payments Received	(67,667)	(384,333)	(452,000)
Ending Balance	<u>\$ 211,999</u>	<u>\$6,888,667</u>	<u>\$7,100,666</u>

Note receivable activity for the year ended December 31, 2013, is as follows:

	<u>Note No.1</u>	<u>Note No.2</u>	<u>Total</u>
Beginning Balance	\$ 345,666	\$7,645,333	\$7,990,999
Payments Received	(66,000)	(372,333)	(438,333)
Ending Balance	<u>\$ 279,666</u>	<u>\$7,273,000</u>	<u>\$7,552,666</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, 2014 and 2013 of \$83,100 and \$88,200, respectively, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the years ended December 31, 2014 and 2013 was \$236,273 and \$249,849, respectively.

Bonds Receivable

On December 15, 2014, the City of Brainerd, on behalf of BPU, issued \$1,700,000 in Water Revenue Bonds, Series 2015A. The detail of the bonds is described in Note 7. Settlement of the bonds occurred on January 22, 2015, therefore a receivable in the amount of \$1,788,901 was recorded as of December 31, 2014 from the purchaser of the bonds, Piper Jaffray & Co. The receivable amount included a revenue bond premium less bond related issuance costs.

NOTE 4 DEPOSITS AND INVESTMENTS

Cash and investments are presented at December 31, 2014 and 2013, as follows:

	<u>2014</u>	<u>2013</u>
Restricted Cash and Investments	\$ 3,733,082	\$ 3,500,492
Current Cash and Investments	7,731,177	5,376,675
Total	<u>\$ 11,464,259</u>	<u>\$ 8,877,167</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and investments at December 31, 2014 and 2013, consisted of the following:

	2014	2013
Petty Cash	\$ 1,500	\$ 1,500
Deposits	6,257,645	3,909,318
Investments	5,205,114	4,966,349
Total	\$ 11,464,259	\$ 8,877,167

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, 2014, 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 4, 2013 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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Authorized Investments (Continued)

- with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investments trust, and guaranteed investment contracts.

Risk Disclosures

Interest Rate Risk

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

Information about the sensitivity of the fair values of BPU's investments to market interest rate fluctuations is provided by the following table that shows the distribution of BPU's investments at December 31, 2014 by maturity:

Investment Type	Investment Maturities (in Years)			Fair Value
	Less Than 1	1-5	More Than 5	
FHLB	\$ -	\$ -	\$ 4,140,114	\$ 4,140,114
CP-Natixis US Finance	1,065,000	-	-	1,065,000
Total	<u>\$ 1,065,000</u>	<u>\$ -</u>	<u>\$ 4,140,114</u>	<u>\$ 5,205,114</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, 2014 are as follows:

Investment Type	S & P Rating	% of Investments
FHLB	AA+	79.5%
CP-Natixis US Finance	A1	20.5%
Total		<u>100.0%</u>

Concentration of Credit Risk

The investment policy of the BPU contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by *Minnesota Statutes*. Investments in any one issuer, as a percentage of total BPU investments as of December 31, 2014, are disclosed above.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Risk Disclosures (Continued)

Concentration of Credit Risk (Continued)

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, 2014 and 2013, BPU owed the City the following:

	2014	2013
Monthly Operating Contribution	\$ 55,113	\$ 50,533
Water Revenue Bond Issuance Costs	17,425	-
Wastewater Collection and Storm Sewer Charges	85,266	84,603
Total	\$ 157,804	\$ 135,136

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, 2014 and 2013, with related accumulated depreciation of \$126,151 and \$112,872, respectively. Depreciation expense related to this asset for the years ended December 31, 2014 and 2013 was \$13,279 and \$13,279, respectively. There was no capital lease activity for the years ended December 31, 2014 and 2013.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 7 LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 2014 and 2013:

	2014	2013
<i>Electric Utility Revenue Bonds</i>		
Electric Utility Revenue Bonds, Series 2007A, issued 09/01/07 with a final maturity of 12/1/22. Interest is paid semi-annually and principal is payable annually. The interest rate ranges from 4.0% to 4.375%. Total original issue was \$11,140,000.	\$ 6,895,000	\$ 7,600,000
<i>General Obligation Sewer Revenue Notes</i>		
General Obligation Sewer Revenue Note, Series 2008, issued 02/08/08 with a final maturity of 8/20/17. Interest is paid semi-annually and principal is payable annually. The interest rate is 2.23%. Total original issue was \$1,965,098.	636,000	839,000
<i>General Obligation Build America Bonds</i>		
General Obligation Build America Bonds, Series 2009, issued 5/4/09 with a final maturity of 8/20/28. Interest is paid semi-annually and principal is payable annually. The interest rate is 3.233%. Total original issue was \$25,966,788.	20,666,000	21,819,000
<i>Electric Utility Revenue Bonds</i>		
Electric Utility Revenue Bonds, Series 2014A, issued 10/09/14 with a final maturity of 12/1/29. Interest is paid semi-annually and principal is payable annually. The interest rate ranges from 2.0% to 4.0%. Total original issue was \$6,070,000.	6,070,000	-
<i>Water Utility Revenue Bonds</i>		
Water Utility Revenue Bonds, Series 2015A, issued 12/15/2014 with a final maturity of 12/1/25. Interest is paid semi-annually and principal is payable annually. The interest rate ranges from 2.25% to 4.0%. Total original issue was \$1,700,000.	1,700,000	-
Total Debt	35,967,000	30,258,000
<u>Less Amount Due Within One Year</u>		
Electric Utility Revenue Bonds, Series 2007A	735,000	705,000
General Obligation Sewer Revenue Notes	207,000	203,000
General Obligation Build America Bonds	1,190,000	1,153,000
Electric Utility Revenue Bonds, Series 2014A	325,000	-
Water Utility Revenue Bonds, Series 2015A	-	-
Net Long-Term Debt	\$ 33,510,000	\$ 28,197,000

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 7 LONG-TERM DEBT (CONTINUED)

On September 1, 2007, the City of Brainerd, on behalf of BPU, issued \$11,140,000 in Electric Utility Revenue Bonds, Series 2007A, 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.

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.

On October 9, 2014, the City of Brainerd, on behalf of BPU, issued \$6,070,000 in Electric Utility Revenue Bonds, Series 2014A, with interest rates from 2.0% to 4.0%, maturing in December 2029, for purchase of hydroelectric dam on June 17, 2014 from Wausau Paper of Minnesota, LLC., and including other major capital improvements to the dam.

On December 15, 2014, the City of Brainerd, on behalf of BPU, issued \$1,700,000 in Water Utility Revenue Bonds, Series 2015A, with interest rates from 2.25% to 4.0%, maturing in December 2025, for water distribution system improvements, including the rehabilitation of two elevated water towers and improvements to well equipment and pumps.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 7 LONG-TERM DEBT (CONTINUED)

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

Year Ending December 31,	Electric Utility Revenue Bonds, Series 2007A		
	Principal	Interest	Total
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	835,000	195,238	1,030,238
2019	875,000	161,838	1,036,838
2020-2022	2,875,000	254,056	3,129,056
Total	<u>\$ 6,895,000</u>	<u>\$ 1,384,246</u>	<u>\$ 8,279,246</u>

Year Ending December 31,	General Obligation Sewer Revenue Notes		
	Principal	Interest	Total
2015	\$ 207,000	\$ 14,183	\$ 221,183
2016	212,000	9,567	221,567
2017	217,000	4,839	221,839
Total	<u>\$ 636,000</u>	<u>\$ 28,589</u>	<u>\$ 664,589</u>

Year Ending December 31,	General Obligation Build America Bonds		
	Principal	Interest	Total
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	1,310,000	548,899	1,858,899
2019	1,352,000	506,546	1,858,546
2020-2024	7,446,000	1,848,015	9,294,015
2025-2028	6,870,000	564,062	7,434,062
Total	<u>\$ 20,666,000</u>	<u>\$ 5,355,239</u>	<u>\$ 26,021,239</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 7 LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Electric Utility Revenue Bonds, Series 2014A		
	Principal	Interest	Total
2015	\$ 325,000	\$ 226,503	\$ 551,503
2016	360,000	187,645	547,645
2017	360,000	176,845	536,845
2018	365,000	166,045	531,045
2019	375,000	155,095	530,095
2020-2024	1,980,000	597,150	2,577,150
2025-2029	2,305,000	260,340	2,565,340
Total	<u>\$ 6,070,000</u>	<u>\$ 1,769,623</u>	<u>\$ 7,839,623</u>

Year Ending December 31,	Water Utility Revenue Bonds, Series 2015A		
	Principal	Interest	Total
2015	\$ -	\$ 27,937	\$ 27,937
2016	160,000	48,912	208,912
2017	160,000	44,113	204,113
2018	165,000	39,237	204,237
2019	165,000	34,288	199,288
2020-2024	865,000	89,138	954,138
2025	185,000	2,081	187,081
Total	<u>\$ 1,700,000</u>	<u>\$ 285,706</u>	<u>\$ 1,985,706</u>

Electric Utility Revenue Bonds, Series 2007A and 2014A

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, 2014 was \$980,290. The Interest payments are made semi-annually on February 20 and August 20, and principal payments on August 20.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 7 LONG-TERM DEBT (CONTINUED)

Water Utility Revenue Bonds, Series 2015A

The resolutions authorizing the issuance of water utility revenue bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1.

Long-term debt activity for the year ended December 31, 2014, is as follows:

	Beginning Balance	Proceeds	Retirements	Ending Balance
Electric Utility Revenue				
Bonds, Series 2007A	\$ 7,600,000	\$ -	\$ 705,000	\$ 6,895,000
G.O. Revenue Notes	839,000	-	203,000	636,000
G.O. Build America Bonds	21,819,000	-	1,153,000	20,666,000
Electric Utility Revenue				
Bonds, Series 2014A	-	6,070,000	-	6,070,000
Water Utility Revenue				
Bonds, Series 2015A	-	1,700,000	-	1,700,000
Revenue Bond Premium				
Series 2014A	-	230,356	3,839	226,517
Series 2015A	-	113,268	-	113,268
	<u>\$ 30,258,000</u>	<u>\$ 8,113,624</u>	<u>\$ 2,064,839</u>	<u>\$ 36,306,785</u>

Long-term debt activity for the year ended December 31, 2013, is as follows:

	Beginning Balance	Proceeds	Retirements	Ending Balance
Electric Utility Revenue				
Bonds, Series 2007A	\$ 8,275,000	\$ -	\$ 675,000	\$ 7,600,000
G.O. Revenue Notes	1,037,000	-	198,000	839,000
G.O. Build America Bonds	22,936,000	-	1,117,000	21,819,000
	<u>\$ 32,248,000</u>	<u>\$ -</u>	<u>\$ 1,990,000</u>	<u>\$ 30,258,000</u>

NOTE 8 RISK MANAGEMENT

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 8 RISK MANAGEMENT (CONTINUED)

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

NOTE 9 DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

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 2014. 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, 2014, 2013, and 2012 were \$213,149, \$194,206, and \$200,305, 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 benefits program. Pursuant to the provisions of the plan, retirees are required to pay 100% of the total premium cost. As of January 1, 2014, there were five retirees receiving health benefits from BPU's health plan.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

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, 2014 and 2013:

	2014	2013
Annual Required Contribution (ARC):	\$ 60,406	\$ 60,406
Interest on Net OPEB Obligation	1,612	2,283
Adjustment to ARC	(7,710)	(6,455)
Annual OPEB Cost	54,308	56,234
Contributions during the year	73,497	71,142
Net OPEB Obligation	(19,189)	(14,908)
Net OPEB - Beginning of the Year	35,824	50,732
Net OPEB - End of the Year	<u>\$ 16,635</u>	<u>\$ 35,824</u>
Percentage Contributed	<u>135%</u>	<u>127%</u>

BPU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2013, and 2012 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2014	\$ 54,308	\$ 73,497	135%	\$ 16,635
December 31, 2013	\$ 56,234	\$ 71,142	127%	\$ 35,824
December 31, 2012	\$ 57,894	\$ 54,295	94%	\$ 50,732

Funding Status

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

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Methods and Assumptions

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

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

In the January 1, 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.

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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 12 COMMITMENTS

Power Contract

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

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, 2014**

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, 2014
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2013)**

ASSETS	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
CAPITAL ASSETS			
Construction in Progress	\$ 949,507	\$ 38,287	\$ 987,794
In Service	2,739,147	33,407,242	36,146,389
Total Investment in Capital Assets	3,688,654	33,445,529	37,134,183
Less: Accumulated Depreciation	(50,715)	(14,841,173)	(14,891,888)
Net Capital Assets	3,637,939	18,604,356	22,242,295
RESTRICTED ASSETS			
Cash and Investments			
Customer Deposits	-	251,014	251,014
City of Brainerd Contribution	-	55,113	55,113
Conservation Incentive Program	-	316,874	316,874
Debt Service Reserve	144,011	1,883,089	2,027,100
Total Restricted Cash and Investments	144,011	2,506,090	2,650,101
Bonds and Notes Receivable	-	-	-
Notes Receivable - Interest	-	-	-
Total Restricted Assets	144,011	2,506,090	2,650,101
CURRENT ASSETS			
Cash and Investments	2,578,510	396,475	2,974,985
Accounts Receivable	23,897	2,246,421	2,270,318
Interest Receivable	-	17,449	17,449
Due from the City of Brainerd	-	28,501	28,501
Inventory	-	952,632	952,632
Prepaid Expenses	10,026	68,771	78,797
Total Current Assets	2,612,433	3,710,249	6,322,682
OTHER ASSETS			
Service Territory Acquisitions, Net of			
Accumulated Amortization	-	273,743	273,743
Total Assets	\$ 6,394,383	\$ 25,094,438	\$ 31,488,821

WATER	WASTEWATER TREATMENT	TOTALS	
		2014	2013
\$ -	\$ 10,057	\$ 997,851	\$ 536,816
17,652,885	36,368,181	90,167,455	84,862,754
17,652,885	36,378,238	91,165,306	85,399,570
(7,948,758)	(8,423,823)	(31,264,469)	(28,512,273)
9,704,127	27,954,415	59,900,837	56,887,297
-	-	251,014	237,822
17,425	85,266	157,804	135,136
-	-	316,874	362,362
-	980,290	3,007,390	2,765,172
17,425	1,065,556	3,733,082	3,500,492
1,788,901	7,100,666	8,889,567	7,552,666
-	83,100	83,100	88,200
1,806,326	8,249,322	12,705,749	11,141,358
(253,611)	5,009,803	7,731,177	5,376,675
254,492	348,571	2,873,381	2,689,871
-	-	17,449	23,911
5,375	83,647	117,523	115,865
78,595	-	1,031,227	994,387
-	2,643	81,440	56,650
84,851	5,444,664	11,852,197	9,257,359
-	-	273,743	293,096
\$ 11,595,304	\$ 41,648,401	\$ 84,732,526	\$ 77,579,110

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 COMBINING STATEMENT OF NET POSITION BY DEPARTMENT (CONTINUED)
 DECEMBER 31, 2014
 (WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2013)**

LIABILITIES AND NET POSITION	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
NET POSITION			
Net Investment in Capital Assets	\$ (2,662,418)	\$ 12,366,238	\$ 9,703,820
Restricted for Debt Service	98,111	1,201,707	1,299,818
Unrestricted	2,361,781	2,309,397	4,671,178
Total Net Position	<u>(202,526)</u>	<u>15,877,342</u>	<u>15,674,816</u>
LONG-TERM LIABILITIES			
Revenue Bonds Payable	5,971,517	6,160,000	12,131,517
General Obligation Sewer Revenue Notes Payable	-	-	-
General Obligation Build America Bonds Payable	-	-	-
Compensated Absences	30,276	349,001	379,277
Other Postemployment Benefit Obligation	-	9,981	9,981
Total Long-Term Liabilities	<u>6,001,793</u>	<u>6,518,982</u>	<u>12,520,775</u>
CURRENT LIABILITIES			
Accounts Payable	199,382	1,103,003	1,302,385
Electric Utility Revenue Bonds Payable	325,000	735,000	1,060,000
General Obligation Sewer Revenue Notes Payable	-	-	-
General Obligation Build America Bonds Payable	-	-	-
Accrued Expenses			
Salaries and Withholding Taxes	24,359	144,712	169,071
Sales Taxes	475	67,898	68,373
Current Liabilities Payable from Restricted Assets:			
Bond Interest	45,900	24,500	70,400
Payable to City of Brainerd	-	55,113	55,113
Conservation Incentive Program Payable	-	316,874	316,874
Customer Deposits	-	251,014	251,014
Total Current Liabilities	<u>595,116</u>	<u>2,698,114</u>	<u>3,293,230</u>
Total Liabilities	<u>6,596,909</u>	<u>9,217,096</u>	<u>15,814,005</u>
Total Liabilities and Net Position	<u>\$ 6,394,383</u>	<u>\$ 25,094,438</u>	<u>\$ 31,488,821</u>

WATER	WASTEWATER TREATMENT	TOTALS	
		2014	2013
\$ 8,393,655	\$ 6,652,415	\$ 24,749,890	\$ 27,353,344
-	7,914,756	9,214,574	9,390,391
1,114,889	5,203,564	10,989,631	7,445,084
<u>9,508,544</u>	<u>19,770,735</u>	<u>44,954,095</u>	<u>44,188,819</u>
1,813,268	-	13,944,785	6,895,000
-	429,000	429,000	636,000
-	19,476,000	19,476,000	20,666,000
162,753	157,204	699,234	613,825
3,327	3,327	16,635	35,824
<u>1,979,348</u>	<u>20,065,531</u>	<u>34,565,654</u>	<u>28,846,649</u>
20,143	18,579	1,341,107	1,141,173
-	-	1,060,000	705,000
-	207,000	207,000	203,000
-	1,190,000	1,190,000	1,153,000
68,304	61,990	299,365	244,147
1,540	-	69,913	70,402
-	249,300	319,700	291,600
17,425	85,266	157,804	135,136
-	-	316,874	362,362
-	-	251,014	237,822
<u>107,412</u>	<u>1,812,135</u>	<u>5,212,777</u>	<u>4,543,642</u>
<u>2,086,760</u>	<u>21,877,666</u>	<u>39,778,431</u>	<u>33,390,291</u>
<u>\$ 11,595,304</u>	<u>\$ 41,648,401</u>	<u>\$ 84,732,526</u>	<u>\$ 77,579,110</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2013)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
OPERATING REVENUES			
Utility Revenues			
Residential	\$ -	\$ 5,278,211	\$ 5,278,211
Commercial	-	6,587,761	6,587,761
Large Commercial	-	4,914,978	4,914,978
Industrial	-	-	-
City of Brainerd	-	325,395	325,395
Internal Use	-	760,334	760,334
Minnesota Power	142,324	-	142,324
Total Utility Revenues	<u>142,324</u>	<u>17,866,679</u>	<u>18,009,003</u>
Other Operating Revenues			
Penalties	-	121,321	121,321
Other	-	152,904	152,904
Total Other Operating Revenues	<u>-</u>	<u>274,225</u>	<u>274,225</u>
Total Operating Revenues	142,324	18,140,904	18,283,228
OPERATING EXPENSES			
Generation, Production, and Treatment			
Salaries and Wages	178,330	-	178,330
Purchased Services	25,629	-	25,629
Supplies and Maintenance	25,861	-	25,861
Employee Benefits	59,801	-	59,801
Other Charges	8,513	-	8,513
Total Generation, Production, and Treatment Expenses	<u>298,134</u>	<u>-</u>	<u>298,134</u>
Purchased Power	(305,363)	12,575,196	12,269,833
Distribution and Collection			
Salaries and Wages	-	757,933	757,933
Purchased Services	-	151,701	151,701
Supplies and Maintenance	-	138,825	138,825
Employee Benefits	-	276,526	276,526
Other Charges	-	20,117	20,117
Total Distribution and Collection Expenses	<u>-</u>	<u>1,345,102</u>	<u>1,345,102</u>

WATER	WASTEWATER TREATMENT	TOTALS	
		2014	2013
\$ 1,037,079	\$ 1,228,071	\$ 7,543,361	\$ 7,067,576
875,338	1,066,594	8,529,693	7,985,016
-	-	4,914,978	4,490,711
-	-	-	665,825
79,792	9,256	414,443	397,806
60,798	342	821,474	765,626
-	-	142,324	-
<u>2,053,007</u>	<u>2,304,263</u>	<u>22,366,273</u>	<u>21,372,560</u>
18,189	24,650	164,160	154,988
25,876	6,282	185,062	214,938
<u>44,065</u>	<u>30,932</u>	<u>349,222</u>	<u>369,926</u>
2,097,072	2,335,195	22,715,495	21,742,486
226,217	324,319	728,866	531,158
122,040	586,883	734,552	696,210
58,699	74,669	159,229	171,697
73,727	98,244	231,772	149,320
193	22,114	30,820	11,286
<u>480,876</u>	<u>1,106,229</u>	<u>1,885,239</u>	<u>1,559,671</u>
-	-	12,269,833	12,880,626
232,467	117,493	1,107,893	1,008,644
148,497	109,424	409,622	483,058
40,966	12,260	192,051	185,196
66,127	36,671	379,324	368,814
11,227	80	31,424	22,337
<u>499,284</u>	<u>275,928</u>	<u>2,120,314</u>	<u>2,068,049</u>

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 BY DEPARTMENT (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2014
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2013)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
OPERATING EXPENSES (CONTINUED)			
Administration			
Salaries and Wages	\$ 17,567	\$ 526,800	\$ 544,367
Purchased Services	11,923	275,032	286,955
Supplies and Maintenance	1,499	60,854	62,353
Insurance and Bonds	28,984	26,955	55,939
Employee Benefits	15,114	243,339	258,453
Other Charges	6,654	136,057	142,711
Total Administration Expenses	<u>81,741</u>	<u>1,269,037</u>	<u>1,350,778</u>
Depreciation and Amortization	<u>50,715</u>	<u>1,315,812</u>	<u>1,366,527</u>
Total Operating Expenses	<u>125,227</u>	<u>16,505,147</u>	<u>16,630,374</u>
OPERATING INCOME (LOSS)	17,097	1,635,757	1,652,854
NONOPERATING REVENUE (EXPENSE)			
Interest Income - Investments	-	112,645	112,645
Interest Income - Notes Receivable	-	-	-
Bond Premium	3,839	-	3,839
Interest Expense	(48,900)	(313,438)	(362,338)
Local Option Sales Tax	-	-	-
Federal Grant Revenue - Build America Bond	-	-	-
Bond Issuance Costs	(174,562)	-	(174,562)
Gain (Loss) on Disposal of Capital Assets	-	-	-
Net Nonoperating Revenue (Expense)	<u>(219,623)</u>	<u>(200,793)</u>	<u>(420,416)</u>
INCOME (LOSS) BEFORE TRANSFERS	(202,526)	1,434,964	1,232,438
TRANSFERS TO THE CITY	<u>-</u>	<u>(611,725)</u>	<u>(611,725)</u>
CHANGE IN NET POSITION	<u>\$ (202,526)</u>	<u>\$ 823,239</u>	<u>\$ 620,713</u>

WATER	WASTEWATER TREATMENT	TOTALS	
		2014	2013
\$ 202,149	\$ 206,414	\$ 952,930	\$ 955,687
59,547	51,397	397,899	283,361
18,088	12,534	92,975	86,952
24,695	37,831	118,465	93,138
68,484	68,034	394,971	319,175
20,029	26,081	188,821	214,974
<u>392,992</u>	<u>402,291</u>	<u>2,146,061</u>	<u>1,953,287</u>
552,614	1,381,667	3,300,808	3,263,906
<u>1,925,766</u>	<u>3,166,115</u>	<u>21,722,255</u>	<u>21,725,539</u>
171,306	(830,920)	993,240	16,947
3,377	282,540	398,562	(124,009)
-	236,273	236,273	249,849
-	-	3,839	-
-	(708,718)	(1,071,056)	(1,090,384)
-	881,028	881,028	875,642
-	141,444	141,444	162,428
(31,767)	-	(206,329)	-
-	-	-	(23,243)
<u>(28,390)</u>	<u>832,567</u>	<u>383,761</u>	<u>50,283</u>
142,916	1,647	1,377,001	67,230
-	-	(611,725)	(650,281)
<u>\$ 142,916</u>	<u>\$ 1,647</u>	<u>\$ 765,276</u>	<u>\$ (583,051)</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Cost			
	12/31/2013	Additions	Deductions	12/31/2014
Electric Department				
<u>Generation</u>				
Land and Land Improvements	\$ -	\$ 276,000	\$ -	\$ 276,000
Generation Facilities	-	2,463,147	-	2,463,147
Total Generation	-	2,739,147	-	2,739,147
<u>Distribution</u>				
Land and Land Improvements	186,028	-	-	186,028
Distribution System	26,707,130	1,028,155	-	27,735,285
Street and Security Lighting System	563,310	5,826	-	569,136
Machinery and Equipment	711,241	12,258	5,062	718,437
Transportation Equipment	1,156,157	78,621	89,725	1,145,053
Total Distribution	29,323,866	1,124,860	94,787	30,353,939
Total Electric Department	29,323,866	3,864,007	94,787	33,093,086
Water Department				
<u>Production</u>				
Structures and Improvements	1,688,355	-	-	1,688,355
Wells, Pumps and Accessories	421,209	374,317	374,898	420,628
Water Treatment Plant Equipment	1,595,395	180,103	-	1,775,498
Total Production	3,704,959	554,420	374,898	3,884,481
<u>Distribution</u>				
Distribution System	10,805,125	1,226,014	-	12,031,139
Machinery and Equipment	262,654	16,591	12,359	266,886
Transportation Equipment	203,520	122,083	26,868	298,735
Total Water Distribution	11,271,299	1,364,688	39,227	12,596,760
Total Water Department	14,976,258	1,919,108	414,125	16,481,241
Wastewater Treatment Department				
Land and Land Improvements	35,485	-	-	35,485
Collection System	3,751,508	43,445	-	3,794,953
Treatment Facility	30,595,007	-	-	30,595,007
Machinery and Equipment	354,137	4,086	633	357,590
Transportation Equipment	124,115	-	-	124,115
Total Wastewater Treatment Department	34,860,252	47,531	633	34,907,150
General Plant				
Land and Land Improvements	1,452,904	-	-	1,452,904
Service Center	3,603,696	-	-	3,603,696
Furniture and Fixtures	382,507	-	-	382,507
Transportation Equipment	197,471	-	16,400	181,071
Storage Building	65,800	-	-	65,800
Total General Plant	5,702,378	-	16,400	5,685,978
Total Capital Assets in Service	84,862,754	5,830,646	525,945	90,167,455
Construction Work in Progress	536,816	1,633,717	1,172,682	997,851
Total Investment in Capital Assets	<u>\$ 85,399,570</u>	<u>\$ 7,464,363</u>	<u>\$ 1,698,627</u>	<u>\$ 91,165,306</u>

Composite Depreciation Rates	Accumulated Depreciation				Percent of Asset Balance
	12/31/2013	Additions	Deductions	12/31/2014	
0.0%	\$ -	\$ -	\$ -	\$ -	0.0%
2.1%	-	50,715	-	50,715	2.1%
1.9%	-	50,715	-	50,715	1.9%
0.0%	-	-	-	-	0.0%
3.8%	10,163,299	1,056,117	-	11,219,416	40.5%
4.3%	245,282	24,491	-	269,773	47.4%
6.9%	447,069	49,379	5,062	491,386	68.4%
5.0%	883,364	57,554	89,725	851,193	74.3%
3.9%	11,739,014	1,187,541	94,787	12,831,768	42.3%
	11,739,014	1,238,256	94,787	12,882,483	
1.5%	1,566,837	25,691	-	1,592,528	94.3%
6.9%	369,001	28,918	374,898	23,021	5.5%
4.6%	571,877	81,154	-	653,031	36.8%
3.5%	2,507,715	135,763	374,898	2,268,580	58.4%
2.9%	4,200,369	354,773	-	4,555,142	37.9%
4.7%	168,594	12,460	12,359	168,695	63.2%
2.5%	203,520	7,576	26,868	184,228	61.7%
3.0%	4,572,483	374,809	39,227	4,908,065	39.0%
3.1%	7,080,198	510,572	414,125	7,176,645	43.5%
0.0%	-	-	-	-	0.0%
2.5%	2,531,102	96,253	-	2,627,355	69.2%
4.1%	3,879,566	1,251,504	-	5,131,070	16.8%
4.9%	257,511	17,515	633	274,393	76.7%
0.0%	124,115	-	-	124,115	100.0%
3.9%	6,792,294	1,365,272	633	8,156,933	23.4%
0.9%	316,294	12,551	-	328,845	22.6%
3.7%	2,040,205	132,674	-	2,172,879	60.3%
1.8%	369,406	7,056	-	376,462	98.4%
4.7%	121,948	8,470	16,400	114,018	63.0%
5.0%	52,914	3,290	-	56,204	85.4%
2.9%	2,900,767	164,041	16,400	3,048,408	53.6%
3.6%	28,512,273	3,278,141	525,945	31,264,469	34.7%
	-	-	-	-	
3.6%	<u>\$ 28,512,273</u>	<u>\$ 3,278,141</u>	<u>\$ 525,945</u>	<u>\$ 31,264,469</u>	34.3%

THIS PAGE INTENTIONALLY LEFT BLANK

OTHER INFORMATION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ELECTRIC DISTRIBUTION DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2005 THROUGH 2014
(UNAUDITED)**

	2005	2006	2007	2008	2009	2010
Electric Capital Assets						
In Service (Thousands)	\$ 18,371	\$ 19,402	\$ 20,851	\$ 25,166	\$ 28,142	\$ 29,559
Investment Per Meter	\$ 2,412	\$ 2,512	\$ 2,698	\$ 3,228	\$ 3,607	\$ 3,778
Investment Per Dollar of Electric Revenue	\$ 1.30	\$ 1.29	\$ 1.22	\$ 1.45	\$ 1.75	\$ 1.79
Accumulated Depreciation (Thousands)	\$ 8,818	\$ 9,582	\$ 10,241	\$ 9,404	\$ 10,409	\$ 11,380
Percent of Capital Assets	48.0%	49.4%	49.1%	37.4%	37.0%	38.5%
Annual Depreciation (Thousands)	\$ 825	\$ 820	\$ 851	\$ 884	\$ 1,086	\$ 1,137
Percent of Annual Depreciation to Average Capital Assets in Service	4.7%	4.3%	4.2%	3.8%	4.1%	3.9%
Number of Meters (Year-End)	7,616	7,723	7,728	7,796	7,801	7,824
Cost of Power						
KWH Purchased (Thousands)	247,648	259,671	262,543	256,066	230,564	239,580
Total Cost (Thousands)	\$ 9,476	\$ 10,272	\$ 12,112	\$ 11,588	\$ 11,753	\$ 12,873
Cost Per KWH Purchased (Cents)	3.82	3.96	4.61	4.53	5.10	5.37
Percent of System Loss	5.2%	4.7%	4.8%	5.6%	4.2%	3.7%
Average Load Factor for Year	72.3%	73.0%	71.4%	72.0%	70.2%	70.3%
Electric Revenue						
KWH Sold (Thousands)	234,765	247,585	249,974	241,640	221,000	230,756
Electric Utility Revenue (Thousands)	\$ 14,101	\$ 15,051	\$ 17,149	\$ 17,307	\$ 16,079	\$ 16,485
Per KWH Sold (Cents)	6.01	6.08	6.86	7.16	7.28	7.14
Gross Margin Per KWH (Cents)	2.19	2.12	2.25	2.63	2.18	1.77
Operating Income (Loss) (Thousands)	\$ 2,029	\$ 1,643	\$ 1,989	\$ 2,417	\$ 874	\$ 180
Change in Net Position (Thousands)	\$ 1,423	\$ 1,129	\$ 1,579	\$ 1,703	\$ 45	\$ (882)

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

2011	2012	2013	2014
\$ 29,876	\$ 30,874	\$ 32,385	\$ 33,407
\$ 3,825	\$ 3,948	\$ 4,120	\$ 4,212
\$ 1.70	\$ 1.71	\$ 1.91	\$ 1.87
\$ 11,743	\$ 12,556	\$ 13,651	\$ 14,841
39.3%	40.7%	42.2%	44.4%
\$ 1,191	\$ 1,199	\$ 1,238	\$ 1,293
4.0%	4.0%	3.9%	3.9%
7,810	7,820	7,861	7,931
242,241	247,092	202,882	186,738
\$ 14,488	\$ 14,498	\$ 12,881	\$ 12,270
5.98	5.87	6.35	6.60
3.3%	2.7%	2.1%	0.7%
71.0%	72.4%	67.6%	69.9%
234,226	240,530	198,534	185,427
\$ 17,559	\$ 18,054	\$ 16,973	\$ 17,867
7.50	7.51	8.56	9.64
1.52	1.64	2.21	3.04
\$ (459)	\$ 223	\$ 556	\$ 1,636
\$ (1,217)	\$ (772)	\$ (400)	\$ 823

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WATER DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2005 THROUGH 2014
(UNAUDITED)**

	2005	2006	2007	2008	2009	2010
Water Capital Assets						
In Service (Thousands)	\$ 12,070	\$ 12,689	\$ 13,817	\$ 14,963	\$ 15,464	\$ 15,384
Investment Per Meter	\$ 2,614	\$ 2,712	\$ 2,962	\$ 3,244	\$ 3,355	\$ 3,326
Investment Per Dollar of Water Revenue	\$ 8.59	\$ 7.94	\$ 7.65	\$ 9.30	\$ 9.88	\$ 8.92
Accumulated Depreciation (Thousands)	\$ 5,078	\$ 5,539	\$ 5,950	\$ 6,229	\$ 6,623	\$ 6,476
Percent of Capital Assets	45.8%	43.7%	43.1%	41.6%	42.8%	42.1%
Annual Depreciation (Thousands)	\$ 510	\$ 509	\$ 465	\$ 471	\$ 470	\$ 489
Percent of Annual Depreciation to Average Capital Assets in Service	4.6%	4.1%	3.5%	3.3%	3.1%	3.2%
Number of Meters (Year-End)	4,617	4,679	4,664	4,613	4,609	4,626
Cost of Water Production						
Gallons Pumped into Distribution System (Thousands)	685,547	817,520	750,756	540,542	568,687	514,258
Total Cost (Thousands)	\$ 314	\$ 419	\$ 419	\$ 432	\$ 435	\$ 410
Cost Per Thousand						
Gallons Pumped	\$ 0.46	\$ 0.51	\$ 0.55	\$ 0.80	\$ 0.76	\$ 0.80
Percent of System Loss	13.7%	11.2%	9.7%	10.5%	20.9%	12.2%
Water Revenue						
Gallons Sold (Thousands)	591,740	726,260	678,254	483,738	449,823	451,584
Water Utility Revenue (Thousands)	\$ 1,405	\$ 1,598	\$ 1,806	\$ 1,609	\$ 1,565	\$ 1,725
Per Thousand Gallons Sold	\$ 2.37	\$ 2.20	\$ 2.66	\$ 3.33	\$ 3.48	\$ 3.82
Gross Margin Per Thousand Gallons Sold	\$ 1.91	\$ 1.69	\$ 2.11	\$ 2.53	\$ 2.72	\$ 3.02
Operating Income (Loss) (Thousands)	\$ (66)	\$ (18)	\$ 168	\$ (120)	\$ (172)	\$ (34)
Change in Net Position (Thousands) Before Capital Contributions from City	\$ (93)	\$ (57)	\$ (15)	\$ 186	\$ (112)	\$ (171)

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

2011	2012	2013	2014
\$ 15,524	\$ 15,814	\$ 16,153	\$ 17,653
\$ 3,359	\$ 3,407	\$ 3,473	\$ 3,814
\$ 8.86	\$ 8.03	\$ 7.62	\$ 8.60
\$ 6,866	\$ 7,349	\$ 7,815	\$ 7,949
44.2%	46.5%	48.4%	45.0%
\$ 493	\$ 483	\$ 493	\$ 553
3.2%	3.1%	3.1%	3.3%
4,621	4,642	4,651	4,629
500,195	497,183	507,118	500,441
\$ 466	\$ 477	\$ 478	\$ 481
\$ 0.93	\$ 0.96	\$ 0.94	\$ 0.96
12.9%	11.8%	14.7%	16.3%
435,473	438,609	432,521	418,668
\$ 1,752	\$ 1,969	\$ 2,119	\$ 2,053
\$ 4.02	\$ 4.49	\$ 4.90	\$ 4.90
\$ 3.09	\$ 3.53	\$ 3.96	\$ 3.94
\$ (66)	\$ 183	\$ 304	\$ 171
\$ (34)	\$ 184	\$ 299	\$ 143

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WASTEWATER TREATMENT DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2005 THROUGH 2014
(UNAUDITED)**

	2005	2006	2007	2008	2009	2010
Wastewater Treatment Capital Assets						
In Service (Thousands)	\$ 13,042	\$ 13,179	\$ 13,223	\$ 13,501	\$ 14,299	\$ 26,975
Investment Per Account	\$ 2,850	\$ 2,851	\$ 2,867	\$ 2,958	\$ 3,134	\$ 5,901
Investment Per Dollar of Wastewater Treatment Revenue	\$ 11.24	\$ 9.05	\$ 7.90	\$ 6.55	\$ 6.76	\$ 12.34
Accumulated Depreciation (Thousands)	\$ 7,061	\$ 7,801	\$ 8,559	\$ 9,076	\$ 10,023	\$ 5,402
Percent of Capital Assets	54.1%	59.2%	64.7%	67.2%	70.1%	20.0%
Annual Depreciation (Thousands)	\$ 393	\$ 739	\$ 770	\$ 763	\$ 1,056	\$ 986
Percent of Annual Depreciation to Average Capital Assets in Service	3.0%	5.6%	5.8%	5.7%	7.6%	4.8%
Number of Accounts (Year-End)	4,576	4,622	4,612	4,564	4,562	4,571
Cost of Wastewater Treatment						
Flow in Gallons Processed (Thousands)	887,076	858,830	751,025	762,208	765,652	675,928
Total Treatment Cost (Thousands)	\$ 405	\$ 402	\$ 505	\$ 506	\$ 567	\$ 638
Cost Per Thousand Gallons Processed	\$ 0.46	\$ 0.47	\$ 0.67	\$ 0.66	\$ 0.74	\$ 0.94
Percent of System Loss	29.8%	24.9%	17.2%	15.7%	16.1%	16.1%
Wastewater Treatment Revenue						
Flow in Gallons Sold (Thousands)	622,729	644,675	621,604	642,762	642,413	567,138
Wastewater Treatment Utility Revenue (Thousands)	\$ 1,160	\$ 1,457	\$ 1,673	\$ 2,062	\$ 2,115	\$ 2,186
Per Thousand Gallons Sold	\$ 1.86	\$ 2.26	\$ 2.69	\$ 3.21	\$ 3.29	\$ 3.85
Gross Margin Per Thousand Gallons Sold	\$ 1.40	\$ 1.79	\$ 2.02	\$ 2.55	\$ 2.55	\$ 2.91
Operating Income (Loss) (Thousands)	\$ (126)	\$ (247)	\$ (271)	\$ 95	\$ (142)	\$ (101)
Change in Net Position (Thousands)	\$ (79)	\$ (183)	\$ 300	\$ 927	\$ 657	\$ 840

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

2011	2012	2013	2014
\$ 35,931	\$ 36,329	\$ 36,325	\$ 36,368
\$ 7,862	\$ 7,908	\$ 7,892	\$ 7,937
\$ 15.91	\$ 15.77	\$ 15.93	\$ 15.78
\$ 4,401	\$ 5,708	\$ 7,046	\$ 8,424
12.2%	15.7%	19.4%	23.2%
\$ 1,644	\$ 1,374	\$ 1,384	\$ 1,382
5.2%	3.8%	3.8%	3.8%
4,570	4,594	4,603	4,582
723,764	725,787	677,322	799,681
\$ 1,016	\$ 975	\$ 1,082	\$ 1,106
\$ 1.40	\$ 1.34	\$ 1.60	\$ 1.38
24.7%	24.6%	19.7%	30.7%
545,138	547,053	544,183	554,578
\$ 2,258	\$ 2,304	\$ 2,281	\$ 2,304
\$ 4.14	\$ 4.21	\$ 4.19	\$ 4.15
\$ 2.74	\$ 2.87	\$ 2.59	\$ 2.77
\$ (1,079)	\$ (706)	\$ (843)	\$ (831)
\$ (402)	\$ (2)	\$ (482)	\$ 2

THIS PAGE INTENTIONALLY LEFT BLANK

OTHER REPORTS SECTION



CliftonLarsonAllen LLP
CLAconnect.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, 2014, 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 6, 2015.

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 opinion 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, 2014-001.



An independent member of Nexia International

Compliance and Other Matters

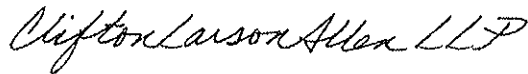
As part of obtaining reasonable assurance about whether BPU's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 Finding

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 6, 2015



CliftonLarsonAllen LLP
CLAAconnect.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, 2014, 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 6, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions. Our audit considered all of the listed categories.

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 6, 2015



An independent member of Nexia International

**BRAINERD PUBLIC UTILITIES
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2014**

SIGNIFICANT DEFICIENCY

2014-001 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.