

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
FINANCIAL REPORT  
DECEMBER 31, 2015 AND 2014**







**BRAINERD PUBLIC UTILITIES  
TABLE OF CONTENTS  
DECEMBER 31, 2015 AND 2014**

**INTRODUCTORY SECTION**

Organizational Data..... 1

**FINANCIAL SECTION**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of the Net Pension Liability ..... 40  
Schedule of PERA Contributions ..... 41  
Schedule of Funding Progress Other Postemployment Benefit Plan..... 42

**SUPPLEMENTARY INFORMATION**

Combining Statements of Net Position by Department ..... 43  
Combining Statements of Revenues, Expenses and Changes  
in Net Position by Department ..... 47  
Schedule of Capital Assets and Accumulated Depreciation..... 51

**OTHER INFORMATION**

Electric Department Statistics ..... 53  
Water Department Statistics ..... 55  
Wastewater Treatment Department Statistics..... 57

**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*..... 59  
Independent Auditors' Report on Minnesota Legal Compliance..... 61



## **INTRODUCTORY SECTION**





**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
ORGANIZATIONAL DATA  
DECEMBER 31, 2015**

**COMMISSION**

		<u>Term Expires</u> <u>December 31,</u>
President	Lucy Nesheim	2017
Vice President	Mark O'Day	2015
Commission Member	Dolly Matten	2019
Commission Member	William Wroolie	2016
Commission Member	Don Samuelson	2018

**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**

## 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, 2015 and 2014, 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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BPU as of December 31, 2015 and 2014, 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.

## **Emphasis of a Matter**

During the year ended December 31, 2015, BPU adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, BPU reported a restatement for the change in accounting principle (see Note 14). Our auditors' opinion was not modified with respect to the restatement.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United State of America require management discussion and analysis, schedule of proportionate share of the net pension liability, schedule of PERA contributions, 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 BPU's basic financial statements. The departmental combining financial statements, the schedule of capital assets and accumulated depreciation and the other information as listed in the table of contents 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 capital assets 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 Matters (Continued)**

*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 9, 2016, on our consideration of BPU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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 BPU's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 9, 2016

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**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2015 AND 2014  
(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, 2015 and 2014. This discussion and analysis should be read in conjunction with BPU's financial statements and accompanying notes, which follow this section.

**Financial Highlights**

- BPU's combined net position from 2014 to 2015 decreased \$1.4 million after change in accounting principle, or 3.0%, from \$45.0 million to \$43.6 million and from 2013 to 2014 increased \$0.8 million, or 1.7%, from \$44.2 million to \$45.0 million.
- Combined total assets and deferred outflow of resources from 2014 to 2015 decreased \$1.5 million, or 1.8%, from \$84.7 million to \$83.2 million and from 2013 to 2014 increased \$7.1 million, or 9.2%, from \$77.6 million to \$84.7 million.
- Combined total liabilities from 2014 to 2015 decreased \$0.3 million, or 0.7%, from \$39.8 to \$39.5 million and from 2013 to 2014 increased \$6.4 million, or 19.1%, from \$33.4 million to \$39.8 million.
- Combined total operating revenue from 2014 to 2015 increased \$0.3 million, or 1.4%, from \$22.7 million to \$23.0 million and from 2013 to 2014 increased \$1.0 million, or 4.5%, from \$21.7 million to \$22.7 million.
- Combined total operating expenses from 2014 to 2015 increased \$0.1 million, or 0.5%, from \$21.7 million to \$21.8 million and from 2013 to 2014 there was no significant change between the years.

**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.

This financial report consists of the following parts: Management's Discussion and Analysis, Financial Statements, Required Supplementary Information, Supplementary Information and Other Information. The Financial Statements include notes that provide additional detail for some of the information included in the Financial Statements.

**Required Financial Statements**

The Financial Statements report information utilizing generally accepted utility accounting practices. The financial statements consist of three required reports.

The ***Statements of Net Position*** summarize BPU's assets and deferred outflows of resources and liabilities and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to BPU's creditors (liabilities). These statements also provide information that can assist in making a variety of financial assessments about BPU's rate of return, structure, liquidity, and financial flexibility.

The ***Statements of Revenues, Expenses, and Changes in Net Position*** summarize the current and prior year's revenues and expenses. These statements quantify the success of BPU's operations. These statements can serve as a tool in determining how well BPU covered its costs through rates, fees, and other revenues. These statements also highlight BPU's profitability and credit worthiness.



**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2015 AND 2014  
(UNAUDITED)**

**Required Financial Statements (Continued)**

The **Statements of Cash Flows** are the third required financial statement. The primary purpose of these statements is to provide information about cash receipts and cash payments during the current and prior year. These statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities.

**Financial Analysis**

The **Condensed Statements of Net Position – Table 1** provide a summary of BPU's net position and is shown in combined form.

Net capital assets represent 71.9% and 70.7% of total assets and deferred outflows of resources as of December 31, 2015 and 2014, respectively. Long-term liabilities represent 41.6% and 40.8% of total liabilities, net position, and deferred inflows of resources as of December 31, 2015 and 2014, respectively. Total net position decreased 3.0% and increased 1.7% as of December 31, 2015 and 2014, respectively.

The largest portion of BPU's net position (61.1%), at December 31, 2015, 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 2015, \$9.3 million or 21.3% of BPU's net position represents resources that are restricted. The remaining balance of unrestricted net position of \$7.7 million or 17.6% may be used to meet BPU ongoing obligations.

The **Condensed Statements of Revenues, Expenses, and Changes in Net Position – Table 2**, provide a summary of the changes in BPU's net position and is shown in combined form.

Combined total operating revenue from 2014 to 2015 increased \$0.4 million, or 1.4%, from \$22.7 million to \$23.0 million and from 2013 to 2014 increased \$1.0 million, or 4.5%, from \$21.7 million to \$22.7 million. The 2014 increase was primarily due to significant rate increases in the Electric Department effective February 1, 2014.

Combined total operating expenses from 2014 to 2015 increased \$0.1 million, or 0.5%, from \$21.7 million to \$21.8 million and from 2013 to 2014 there was no significant change between the years. The decrease in purchased power is primarily the result of hydro generation of which the hydro dam was purchased in June 2014. Total operating expenses for the hydro dam for the years 2015 and 2014 were \$0.9 million and \$0.4 million, respectively.

Net nonoperating revenue (expense) from 2014 to 2015 decreased \$0.7 million, or 19.0%, from \$0.38 million to \$0.31 million and from 2013 to 2014 increased \$0.33 million, from \$0.05 million to \$0.38 million. The change in interest income from investments for each reporting year is primarily due to change in fair value at the end of each reporting year.

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2015 AND 2014  
(UNAUDITED)**

**Financial Analysis (Continued)**

**Condensed Statements of Net Position**

**Table 1  
(In Thousands of Dollars)**

	December 31,			Change	
	2015	2014	2013	2015 to 2014	2014 to 2013
Net Capital Assets	\$ 59,826	\$ 59,901	\$ 56,887	\$ (75)	\$ 3,014
Restricted Assets	10,875	12,706	11,141	(1,831)	1,565
Current Assets	11,762	11,852	9,258	(90)	2,594
Other Assets	260	274	293	(14)	(19)
<b>Total Assets</b>	<b>82,723</b>	<b>84,733</b>	<b>77,579</b>	<b>(2,010)</b>	<b>7,154</b>
Deferred Outflows of Resources	502	-	-	502	-
<b>Total Assets and Deferred Outflows</b>	<b>\$ 83,225</b>	<b>\$ 84,733</b>	<b>\$ 77,579</b>	<b>\$ (1,508)</b>	<b>\$ 7,154</b>
Current Liabilities	\$ 4,886	\$ 5,213	\$ 4,544	\$ (327)	\$ 669
Long-Term Liabilities	34,608	34,566	28,847	42	5,719
<b>Total Liabilities</b>	<b>39,494</b>	<b>39,779</b>	<b>33,391</b>	<b>(285)</b>	<b>6,388</b>
Net Investment in Capital Assets	26,628	24,750	27,353	1,878	(2,603)
Restricted Net Position	9,293	9,215	9,391	78	(176)
Unrestricted Net Position	7,668	10,989	7,444	(3,321)	3,545
<b>Total Net Position</b>	<b>43,589</b>	<b>44,954</b>	<b>44,188</b>	<b>(1,365)</b>	<b>766</b>
Deferred Inflows of Resources	142	-	-	142	-
<b>Total Liabilities, Net Position and Deferred Inflows</b>	<b>\$ 83,225</b>	<b>\$ 84,733</b>	<b>\$ 77,579</b>	<b>\$ (1,508)</b>	<b>\$ 7,154</b>

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2015 AND 2014  
(UNAUDITED)**

**Financial Analysis (Continued)**

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

**Table 2  
(In Thousands of Dollars)**

	For the Year Ended December 31,			Dollar Change		Percent Change	
	2015	2014	2013	2015 to 2014	2014 to 2013	2015 to 2014	2014 to 2013
<b>OPERATING REVENUES</b>							
Electric	\$ 18,409	\$ 18,284	\$ 17,268	\$ 125	\$ 1,016	0.7%	5.9%
Water	2,235	2,097	2,161	138	(64)	6.6%	-3.0%
Wastewater Treatment	2,400	2,335	2,312	65	23	2.8%	1.0%
Total Operating Revenue	23,044	22,716	21,741	328	975	1.4%	4.5%
<b>OPERATING EXPENSES</b>							
Production and Treatment	1,973	1,885	1,560	88	325	4.7%	20.8%
Purchased Power	11,287	12,270	12,881	(983)	(611)	-8.0%	-4.7%
Distribution and Collection	2,449	2,120	2,068	329	52	15.5%	2.5%
Administration	2,545	2,146	1,953	399	193	18.6%	9.9%
Depreciation and Amortization	3,583	3,301	3,264	282	37	8.5%	1.1%
Total Operating Expenses	21,837	21,722	21,726	115	(4)	0.5%	0.0%
<b>OPERATING INCOME</b>	1,207	994	15	213	979	21.4%	6526.7%
<b>NONOPERATING REVENUE (EXPENSE)</b>							
Interest Income - Investments	204	399	(124)	(195)	523	-48.9%	421.8%
Interest Income - Notes Receivable	222	236	250	(14)	(14)	-5.9%	-5.6%
Bond Premium	27	4	-	23	4	575.0%	0.0%
Interest Expense	(1,195)	(1,071)	(1,090)	(124)	19	11.6%	-1.7%
Local Option Sales Tax	907	881	876	26	5	3.0%	0.6%
Federal Grant Revenue - Build America Bond	141	141	162	-	(21)	0.0%	-13.0%
Bond Issuance Costs	-	(206)	-	206	(206)	-100.0%	0.0%
Gain (Loss) on Disposal of Capital Assets	5	-	(23)	5	23	0.0%	0.0%
Net Nonoperating Revenue	311	384	51	(73)	333	-19.0%	652.9%
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS</b>	1,518	1,378	66	140	1,312	10.2%	1987.9%
<b>TRANSFERS TO THE CITY</b>	(596)	(612)	(650)	16	38	-2.6%	-5.8%
<b>CHANGE IN NET POSITION</b>	922	766	(584)	156	1,350	20.4%	231.2%
Net Position - Beginning	44,954	44,188	44,772	766	(584)	1.7%	-1.3%
Change in Accounting Principle	(2,287)	-	-	(2,287)	-	0.0%	0.0%
Net Position - Beginning, as Restated	42,667	44,188	44,772	(1,521)	(584)	-3.4%	-1.3%
<b>NET POSITION - ENDING</b>	<u>\$ 43,589</u>	<u>\$ 44,954</u>	<u>\$ 44,188</u>	<u>\$ (1,365)</u>	<u>\$ 766</u>	-3.0%	1.7%

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2015 AND 2014  
(UNAUDITED)**

**Capital Assets**

**Net Capital Assets – Table 3**, shows changes in net capital assets from 2013 to 2015. Total net capital assets as of December 31, 2015 and 2014 were \$59.8 million and \$59.9 million, respectively.

**Net Capital Assets  
Table 3  
(In Thousands of Dollars)**

	December 31,			Change	
	2015	2014	2013	2015 to 2014	2014 to 2013
Electric Department					
Generation System	\$ 4,684	\$ 2,412	\$ -	\$ 2,272	\$ 2,412
Distribution System	16,077	16,516	16,544	(439)	(28)
Street and Security Lighting System	275	299	318	(24)	(19)
Water Department					
Production Facilities	1,605	1,616	1,197	(11)	419
Distribution System	7,505	7,476	6,605	29	871
Wastewater Treatment Department					
Lift Station Facilities	1,100	1,168	1,220	(68)	(52)
Treatment Facilities	24,262	25,464	26,716	(1,202)	(1,252)
Land and Land Improvements	1,609	1,622	1,358	(13)	264
Machinery and Equipment	419	409	455	10	(46)
Furniture and Fixtures	68	6	13	62	(7)
Transportation Equipment	627	475	348	152	127
Service Center	1,303	1,440	1,576	(137)	(136)
Construction in Progress	292	998	537	(706)	461
<b>Total</b>	<b>\$ 59,826</b>	<b>\$ 59,901</b>	<b>\$ 56,887</b>	<b>\$ (75)</b>	<b>\$ 3,014</b>

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

	2015	2014	2013
Additions and Transfers to Capital Assets			
Being Depreciated (By Department)			
Electric	\$ 3,413	\$ 3,864	\$ 1,660
Water	617	1,919	369
Wastewater Treatment	89	48	103
General Plant	69	-	-
	4,188	5,831	2,132
Additions to Construction in Progress	2,089	1,634	1,580
Transfers from Construction in Progress			
to Capital Assets Being Depreciated	(2,795)	(1,173)	(1,115)
Deletions and Transfers	-	-	(71)
Normal Annual Depreciation	(3,557)	(3,278)	(3,115)
<b>Total</b>	<b>\$ (75)</b>	<b>\$ 3,014</b>	<b>\$ (589)</b>

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2015 AND 2014  
(UNAUDITED)**

**Capital Assets (Continued)**

Major capital asset transactions for 2015 and 2014 include the following:

	2015	2014
<b><u>Electric</u></b>		
Distribution Transformers and Metering Purchased	\$ 157,200	\$ 499,900
Expansion of Distribution Feeder System	253,600	281,600
Distribution System Improvements	248,500	246,700
Other Equipment	22,100	-
Digger/Derrick Truck	232,200	-
LED Lighting	-	5,800
Service Trucks	-	78,600
Hydroelectric Dam Acquisition and Improvements	2,445,200	2,739,100
<b><u>Water</u></b>		
Purchase of Meters and Valves	115,600	180,100
Filter Bed Improvements	-	106,200
Distribution System Improvements	60,600	164,800
Water Tower Improvements	392,800	955,000
Well Improvements	30,300	374,300
Central Station Air Compressor	-	12,500
Service Trucks	-	122,100
<b><u>Wastewater</u></b>		
Lift Station Improvements	35,800	43,400
Treatment Facility Improvements	53,300	-
<b><u>General Plant</u></b>		
Maintenance Equipment	-	12,300
GIS Equipment	71,900	-
Billing Inserter - Capital Lease	61,000	-
Office Equipment	18,900	-
<b><u>Construction in Progress</u></b>		
GIS Conversion Software	-	38,300
Hydroelectric Dam Apron Repair Project	230,300	832,800
Hydroelectric Dam Electric System Improvements	-	116,800
Wastewater Treatment Compressor	-	10,100
Purchase of Storage Building	61,900	-

**Long-Term Debt**

The following table presents the change in the outstanding debt of BPU from 2013 to 2015. The total net long-term debt at December 31, 2015, 2014, and 2013 was \$34.6 million, \$34.6 million, and \$28.8 million, respectively. The Series 2014A Bonds were issued for the purchase of hydroelectric dam and including other major capital improvements to the dam. The Series 2015A Bonds were issued for water distribution system improvements, including the rehabilitation of two elevated water towers and improvements to well equipment and pumps. In 2015 the net pension liability of \$2.8 million was recorded. The capital lease payable is related to acquisition of billing inserter machine in 2015.

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2015 AND 2014  
(UNAUDITED)**

**Long-Term Debt (Continued)**

	(In Thousands of Dollars)				
	Balance as of December 31,			Increase (Decrease)	
	2015	2014	2013	2015 to 2014	2014 to 2013
Utility Revenue Bonds					
Series 2007A	\$ 6,160	\$ 6,895	\$ 7,600	\$ (735)	\$ (705)
Series 2014A	5,745	6,070	-	(325)	6,070
Series 2015A	1,700	1,700	-	-	1,700
G.O. Revenue Notes/Bonds					
Series 2008	429	636	839	(207)	(203)
Series 2009 - Build America	19,476	20,666	21,819	(1,190)	(1,153)
Capital Lease Payable	53	-	-	53	-
Compensated Absences	648	699	614	(51)	85
Net Pension Liability	2,814	-	-	2,814	-
Revenue Bond Premium	313	340	-	(27)	340
OPEB Obligation	17	17	36	-	(19)
<b>Total Long-Term Debt</b>	<b>37,355</b>	<b>37,023</b>	<b>30,908</b>	<b>332</b>	<b>6,115</b>
Less: Current Portion					
Utility Revenue Bonds					
Series 2007A	775	735	705	40	30
Series 2014A	360	325	-	35	325
Series 2015A	160	-	-	160	-
G.O. Revenue Notes/Bonds					
Series 2008	212	207	203	5	4
Series 2009 - Build America	1,229	1,190	1,153	39	37
Capital Lease Payable	11	-	-	11	-
<b>Total Current Portion of Long-Term Debt</b>	<b>2,747</b>	<b>2,457</b>	<b>2,061</b>	<b>290</b>	<b>396</b>
<b>Net Long-Term Debt</b>	<b>\$ 34,608</b>	<b>\$ 34,566</b>	<b>\$ 28,847</b>	<b>\$ 42</b>	<b>\$ 5,719</b>

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2015 AND 2014  
(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 2015 Operating Budget Analysis and the 2016 Operating Budget approved by the Commission is presented as follows:

	(In Thousands of Dollars)			
	2015 Budget	2015 Actual	Favorable (Unfavorable) Variance	2016 Budget
Utility Operating Revenue	\$ 22,932	\$ 22,654	\$ (278)	\$ 22,791
Other Operating Revenue	298	390	92	342
Total Operating Revenue	23,230	23,044	(186)	23,133
Purchased Power	12,851	11,287	1,564	11,940
Other Operating Expense	6,602	6,967	(365)	6,835
Depreciation and Amortization Expense	3,398	3,583	(185)	3,619
Total Operating Expense	22,851	21,837	1,014	22,394
Operating Income	379	1,207	828	739
Net Nonoperating Revenue	162	311	149	250
Income Before Operating Transfers to City	541	1,518	977	989
Operating Transfers to the City	(624)	(596)	28	(678)
Change in Net Position	\$ (83)	\$ 922	\$ 1,005	\$ 311

**Requests for Information**

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CAPITAL ASSETS</b>		
In Service	\$ 93,092,105	\$ 90,167,455
Construction in Progress	292,249	997,851
Total Investment in Capital Assets	93,384,354	91,165,306
Less: Accumulated Depreciation	(33,557,963)	(31,264,469)
Net Capital Assets	59,826,391	59,900,837
<b>RESTRICTED ASSETS</b>		
Cash and Investments	4,162,923	3,733,082
Bonds and Notes Receivable	6,635,000	8,889,567
Notes Receivable - Interest	77,000	83,100
Total Restricted Assets	10,874,923	12,705,749
<b>CURRENT ASSETS</b>		
Cash and Investments	7,888,783	7,731,177
Accounts Receivable	2,688,508	2,873,381
Interest Receivable	23,654	17,449
Due from the City of Brainerd	120,156	117,523
Inventory	947,508	1,031,227
Prepaid Expenses	92,906	81,440
Total Current Assets	11,761,515	11,852,197
<b>OTHER ASSETS</b>		
Service Territory Acquisitions, Net of Accumulated Amortization	260,063	273,743
Total Assets	82,722,892	84,732,526
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Related	501,785	-
Total Assets and Deferred Outflows of Resources	\$ 83,224,677	\$ 84,732,526



**BRainerd PUBLIC UTILITIES  
BRainerd, MINNESOTA  
STATEMENTS OF NET POSITION (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 26,627,660	\$ 24,749,890
Restricted for Debt Service	9,293,302	9,214,574
Unrestricted	7,668,149	10,989,631
Total Net Position	43,589,111	44,954,095
<b>LONG-TERM LIABILITIES</b>		
Revenue Bonds Payable	12,310,000	13,605,000
General Obligation Sewer Revenue Notes Payable	217,000	429,000
General Obligation Build America Bonds Payable	18,247,000	19,476,000
Capital Lease Payable	41,998	-
Compensated Absences	647,836	699,234
Net Pension Liability	2,814,108	-
Revenue Bond Premium	313,101	339,785
Other Postemployment Benefit Obligation	17,337	16,635
Total Long-Term Liabilities	34,608,380	34,565,654
<b>CURRENT LIABILITIES</b>		
Accounts Payable	979,362	1,341,107
Electric Utility Revenue Bonds Payable	1,295,000	1,060,000
General Obligation Sewer Revenue Notes Payable	212,000	207,000
General Obligation Build America Bonds Payable	1,229,000	1,190,000
Capital Lease Payable	10,865	-
Accrued Expenses		
Salaries and Withholding Taxes	100,138	299,365
Sales Taxes	64,181	69,913
Current Liabilities Payable from Restricted Assets:		
Bond Interest	290,400	319,700
Payable to City of Brainerd	161,028	157,804
Conservation Incentive Program Payable	290,586	316,874
Customer Deposits	252,748	251,014
Total Current Liabilities	4,885,308	5,212,777
Total Liabilities	39,493,688	39,778,431
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Related	141,878	-
Total Net Position, Liabilities and Deferred Inflows of Resources	\$ 83,224,677	\$ 84,732,526

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

<b>OPERATING REVENUES</b>	2015	2014
Utility Revenues		
Residential	\$ 7,681,551	\$ 7,543,361
Commercial	8,711,060	8,529,693
Large Commercial	5,085,573	4,914,978
City of Brainerd	429,349	414,443
Internal Use	746,016	821,474
Minnesota Power	-	142,324
Total Utility Revenues	22,653,549	22,366,273
Other Operating Revenues		
Penalties	162,178	164,160
Other	228,156	185,062
Total Other Operating Revenues	390,334	349,222
Total Operating Revenues	23,043,883	22,715,495
<b>OPERATING EXPENSES</b>		
Generation, Production, and Treatment		
Salaries and Wages	862,926	728,866
Purchased Services	668,455	734,552
Supplies and Maintenance	128,514	159,229
Employee Benefits	260,697	231,772
Other Charges	52,010	30,820
Total Generation, Production, and Treatment Expenses	1,972,602	1,885,239
Purchased Power	11,286,640	12,269,833
Distribution and Collection		
Salaries and Wages	1,227,174	1,107,893
Purchased Services	485,032	409,622
Supplies and Maintenance	231,900	192,051
Employee Benefits	442,141	379,324
Other Charges	63,290	31,424
Total Distribution and Collection Expenses	2,449,537	2,120,314
Administration		
Salaries and Wages	1,014,737	952,930
Purchased Services	499,232	397,899
Supplies and Maintenance	101,791	92,975
Insurance and Bonds	248,200	118,465
Employee Benefits	444,247	394,971
Other Charges	236,476	188,821
Total Administration Expenses	2,544,683	2,146,061
Depreciation and Amortization	3,582,667	3,300,808
Total Operating Expenses	\$ 21,836,129	\$ 21,722,255

See accompanying Notes to Financial Statements.

**BRainerd PUBLIC UTILITIES  
BRainerd, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>OPERATING INCOME</b>	\$ 1,207,754	\$ 993,240
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Interest Income - Investments	204,234	398,562
Interest Income - Notes Receivable	221,339	236,273
Bond Premium	26,684	3,839
Interest Expense	(1,195,092)	(1,071,056)
Local Option Sales Tax	907,123	881,028
Federal Grant Revenue - Build America Bond	141,217	141,444
Bond Issuance Costs	-	(206,329)
Gain on Disposal of Capital Assets	5,231	-
Net Nonoperating Revenue	<u>310,736</u>	<u>383,761</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	1,518,490	1,377,001
<b>TRANSFERS TO THE CITY</b>	<u>(596,543)</u>	<u>(611,725)</u>
<b>CHANGE IN NET POSITION</b>	921,947	765,276
Net Position - Beginning	44,954,095	44,188,819
Change in Accounting Principle	<u>(2,286,931)</u>	<u>-</u>
Net Position - Beginning, as Restated	<u>42,667,164</u>	<u>44,188,819</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 43,589,111</u></u>	<u><u>\$ 44,954,095</u></u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 23,197,031	\$ 22,487,338
Cash Payments to Employees for Services	(3,303,350)	(2,649,062)
Cash Payments to Other Suppliers of Goods or Services	(15,011,254)	(15,722,582)
	4,882,427	4,115,694
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer to Primary Government	(572,894)	(606,482)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to Utility Plant	(3,721,254)	(6,210,202)
Proceeds from Local Option Sales Tax	902,629	879,932
Principal Paid on Long-Term Debt	(2,457,000)	(2,061,000)
Interest Paid on Long-Term Debt	(1,268,501)	(1,235,700)
Proceeds from Revenue Bonds	1,788,901	6,214,944
Principal Received on Notes Receivable	465,666	452,000
Federal Grant Revenue - Build America Bond	144,517	152,744
Principal Paid on Capital Lease	(7,743)	-
Proceeds from Sale of Utility Plant	5,231	-
	(4,147,554)	(1,807,282)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	425,468	646,397
Purchase of Investments	(2,228,069)	-
Redemption of Investments	2,982,122	-
	1,179,521	646,397
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,341,500	2,348,327
Cash and Cash Equivalents - Beginning	6,259,145	3,910,818
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 7,600,645	\$ 6,259,145

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 1,207,754	\$ 993,240
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	3,582,667	3,300,808
Revenue Reduced for Uncollectible Accounts	44,933	42,174
(Increase) Decrease in Assets:		
Accounts Receivable	183,434	(195,372)
Prepaid Expenses	(11,466)	(24,790)
Inventories	83,719	(36,840)
Increase (Decrease) in Liabilities:		
Accounts Payable	(95,675)	(52,179)
Accrued Liabilities	(203,225)	52,036
Conservation Incentive Program Payable	(26,288)	(45,488)
Accrued Compensated Absences	(51,398)	101,294
Other Postemployment Benefit Obligation	702	(19,189)
Change in Pension Related Items	167,270	-
Net Cash Provided by Operating Activities	\$ 4,882,427	\$ 4,115,694
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS</b>		
Cash and Investments - Current Assets	\$ 7,888,783	\$ 7,731,177
Cash and Investments - Restricted Assets	4,162,923	3,733,082
Cash and Investments - Balance Sheets	12,051,706	11,464,259
Less: Investments not Meeting the Definition of Cash Equivalents	4,451,061	5,205,114
Cash and Cash Equivalents - Ending	\$ 7,600,645	\$ 6,259,145
<b>NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Utility Plant on Account	\$ (16,274)	\$ (249,730)
Net Increase in Fair Value of Investments	45,947	238,765
Purchase of Assets on Lease	60,606	-

See accompanying Notes to Financial Statements.

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**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**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 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.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

**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, including cost of labor and materials on self-constructed assets. 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, 2015 and 2014 was \$1,195,092 and \$1,071,056, 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.

**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, 2015 and 2014 was zero for both years.

**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.



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

**Deferred Outflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses) until then.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

**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.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net pension of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**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.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

**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.

**Net Position**

Net Position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources 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, 2015 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Electric	\$ 33,093,086	\$ 3,413,573	\$ 515,843	\$ 35,990,816
Water	16,481,241	616,656	623,479	16,474,418
Wastewater Treatment	34,907,150	89,146	63,746	34,932,550
General Plant	5,685,978	79,520	71,177	5,694,321
Construction in Progress	997,851	2,088,926	2,794,528	292,249
	<u>91,165,306</u>	<u>6,287,821</u>	<u>4,068,773</u>	<u>93,384,354</u>
Accumulated Depreciation	(31,264,469)	(3,567,740)	(1,274,246)	(33,557,963)
Net Capital Assets	<u>\$ 59,900,837</u>	<u>\$ 2,720,081</u>	<u>\$ 2,794,527</u>	<u>\$ 59,826,391</u>

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

	Beginning Balance	Additions	Retirements	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	(28,512,273)	(3,278,141)	(525,945)	(31,264,469)
Net Capital Assets	<u>\$ 56,887,297</u>	<u>\$ 4,186,222</u>	<u>\$ 1,172,682</u>	<u>\$ 59,900,837</u>

Capital assets not being depreciated totaled \$1,578,914 and \$1,578,914 at December 31, 2015 and 2014, respectively.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 3 RESTRICTED ASSETS**

**Cash and Investments**

At December 31, 2015 and 2014, restricted cash and investments consisted of the following:

	2015	2014
Customer Deposits	\$ 252,748	\$ 251,014
City of Brainerd Contribution	161,028	157,804
Conservation Incentive Program	290,586	316,874
Electric Utility Revenue Bonds Debt Service Reserve	1,596,614	2,027,100
General Obligation Revenue Notes and Bonds Debt Service Reserve	1,861,947	980,290
Total Restricted Cash and Investments	<u>\$ 4,162,923</u>	<u>\$ 3,733,082</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, water and wastewater treatment system improvements and bond principal and interest payments in the event operating funds are not sufficient to meet such purposes.

**Notes Receivable**

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

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

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 3 RESTRICTED ASSETS (CONTINUED)**

**Notes Receivable (Continued)**

Note receivable activity for the year ended December 31, 2015, is as follows:

	<u>Note No.1</u>	<u>Note No.2</u>	<u>Total</u>
Beginning Balance	\$ 211,999	\$6,888,667	\$7,100,666
Payments Received	(68,999)	(396,667)	(465,666)
Ending Balance	<u>\$ 143,000</u>	<u>\$6,492,000</u>	<u>\$6,635,000</u>

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>

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, 2015 and 2014 of \$77,000 and \$83,100, respectively, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the years ended December 31, 2015 and 2014 was \$221,339 and \$236,273, 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, 2015 and 2014, as follows:

	<u>2015</u>	<u>2014</u>
Restricted Cash and Investments	\$ 4,162,923	\$ 3,733,082
Current Cash and Investments	7,888,783	7,731,177
Total	<u>\$ 12,051,706</u>	<u>\$ 11,464,259</u>

Cash and investments at December 31, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Petty Cash	\$ 1,500	\$ 1,500
Deposits	7,599,145	6,257,645
Investments	4,451,061	5,205,114
Total	<u>\$ 12,051,706</u>	<u>\$ 11,464,259</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

**Deposits**

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

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of a depository financial institution, BPU 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, 2015, 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. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

BPU's deposits in financial institutions at December 31, 2015 were entirely covered by federal depository insurance or collateral in accordance with Minnesota Statutes.

**Investments**

Under the provisions of the City of Brainerd's investment policy revised by Council on February 2, 2015 and in accordance with Minnesota Statutes, BPU may invest in the following types of investments:

- securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Statutes §118A.04, subd.6;
- mutual funds through shares of registered investments companies provided the mutual fund receives certain ratings depending on its investments;
- general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service (G.O. rated "A" or better and revenue obligation rated "AA" or better);
- bankers' acceptances of United States banks;
- commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investments trust, and guaranteed investment contracts.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

**Risk Disclosures**

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

Information about the sensitivity of the fair values of BPU's investments to market interest rate fluctuations is provided by the following table that shows the distribution of BPU's investments at December 31, 2015 by maturity:

Investment Type	Investment Maturities (in Years)			Fair Value
	Less Than 1	1-5	More Than 5	
FHLB	\$ -	\$ -	\$ 2,786,085	\$ 2,786,085
FHLMC	-	-	599,976	599,976
CP-Bank of Tokyo Mitsubishi	1,065,000	-	-	1,065,000
Total	<u>\$ 1,065,000</u>	<u>\$ -</u>	<u>\$ 3,386,061</u>	<u>\$ 4,451,061</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, 2015 are as follows:

Investment Type	S & P Rating	% of Investments
FHLB	AA+	62.6%
FHLMC	AA+	13.5%
CP-Bank of Toyko Mitsubishi	A1	23.9%
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, 2015, are disclosed above.

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, BPU 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.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**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, 2015 and 2014, BPU owed the City the following:

	2015	2014
Monthly Operating Contribution	\$ 48,791	\$ 55,113
Water Revenue Bond Issuance Costs	-	17,425
Wastewater Collection and Storm Sewer Charges	112,237	85,266
Total	<u>\$ 161,028</u>	<u>\$ 157,804</u>

**NOTE 6 LONG-TERM DEBT**

Long-term bonds and notes debt consists of the following as of December 31, 2015 and 2014:

Description of Issue	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding	
					December 31,	
					2015	2014
Electric Utility Revenue Bonds, Series 2007A	4.00 - 4.375%	09/01/2007	12/01/2022	\$ 11,140,000	\$ 6,160,000	\$ 6,895,000
G.O. Sewer Revenue Notes, Series 2008	2.23%	02/08/2008	08/20/2017	1,965,098	429,000	636,000
G.O. Build America Bonds, Series 2009	3.233%	05/04/2009	08/20/2028	25,966,788	19,476,000	20,666,000
Electric Utility Revenue Bonds, Series 2014A	2.0 - 4.0%	10/09/2014	12/01/2029	6,070,000	5,745,000	6,070,000
Water Utility Revenue Bonds, Series 2015A	2.25 - 4.0%	12/15/2014	12/01/2025	1,700,000	1,700,000	1,700,000
Total Debt				<u>\$ 46,841,886</u>	<u>33,510,000</u>	<u>35,967,000</u>
<u>Less Amount Due Within One Year</u>						
Electric Utility Revenue Bonds, Series 2007A					775,000	735,000
General Obligation Sewer Revenue Notes					212,000	207,000
General Obligation Build America Bonds					1,229,000	1,190,000
Electric Utility Revenue Bonds, Series 2014A					360,000	325,000
Water Utility Revenue Bonds, Series 2015A					160,000	-
Net Long - Term Debt					<u>\$ 30,774,000</u>	<u>\$ 33,510,000</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 6 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.

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 amount shown as restricted cash and investments as of December 31, 2015 was \$1,596,614. The interest payments are made semi-annually on June 1 and December 1, and principal payments on December 1.



**BRainerd PUBLIC UTILITIES  
BRainerd, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

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, 2015 was \$1,642,589. The Interest payments are made semi-annually on February 20 and August 20, and principal payments on August 20.

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 amount shown as restricted cash and investments as of December 31, 2015 was \$219,358. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1.

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

Electric Utility Revenue Bonds, Series 2007A			
Year Ending December 31,	Principal	Interest	Total
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	920,000	125,744	1,045,744
2021-2022	1,955,000	128,313	2,083,313
Total	\$ 6,160,000	\$ 1,096,609	\$ 7,256,609

General Obligation Sewer Revenue Notes			
Year Ending December 31,	Principal	Interest	Total
2016	\$ 212,000	\$ 9,567	\$ 221,567
2017	217,000	4,839	221,839
Total	\$ 429,000	\$ 14,406	\$ 443,406

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

Year Ending December 31,	General Obligation Build America Bonds		
	Principal	Interest	Total
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	1,396,000	462,836	1,858,836
2021-2025	7,687,000	1,607,286	9,294,286
2026-2028	5,233,000	341,954	5,574,954
Total	<u>\$ 19,476,000</u>	<u>\$ 4,687,106</u>	<u>\$ 24,163,106</u>

Year Ending December 31,	Electric Utility Revenue Bonds, Series 2014A		
	Principal	Interest	Total
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	380,000	143,845	523,845
2021-2025	2,030,000	533,750	2,563,750
2026-2029	1,875,000	179,895	2,054,895
Total	<u>\$ 5,745,000</u>	<u>\$ 1,543,120</u>	<u>\$ 7,288,120</u>

Year Ending December 31,	Water Utility Revenue Bonds, Series 2015A		
	Principal	Interest	Total
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	165,000	29,338	194,338
2021-2025	885,000	61,881	946,881
Total	<u>\$ 1,700,000</u>	<u>\$ 257,769</u>	<u>\$ 1,957,769</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

Long-term debt activity for the year ended December 31, 2015, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Electric Utility Revenue				
Bonds, Series 2007A	\$ 6,895,000	\$ -	\$ 735,000	\$ 6,160,000
G.O. Revenue Notes	636,000	-	207,000	429,000
G.O. Build America Bonds	20,666,000	-	1,190,000	19,476,000
Electric Utility Revenue				
Bonds, Series 2014A	6,070,000	-	325,000	5,745,000
Water Utility Revenue				
Bonds, Series 2015A	1,700,000	-	-	1,700,000
Revenue Bond Premium				
Series 2014A	226,517	-	15,357	211,160
Series 2015A	113,268	-	11,327	101,941
Capital Lease Payable	-	60,606	7,743	52,863
Compensated Absences	699,234	-	51,398	647,836
OPEB Obligation	16,635	702	-	17,337
	<u>\$ 37,022,654</u>	<u>\$ 61,308</u>	<u>\$2,542,825</u>	<u>\$34,541,137</u>

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

	Beginning Balance	Additions	Reductions	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
Compensated Absences	613,825	85,409	-	699,234
OPEB Obligation	35,824	-	19,189	16,635
	<u>\$ 30,907,649</u>	<u>\$8,199,033</u>	<u>\$2,084,028</u>	<u>\$37,022,654</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 7 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, 2015 and 2014, with related accumulated depreciation of \$139,430 and \$126,151, respectively. Depreciation expense related to this asset for the years ended December 31, 2015 and 2014 was \$13,279 and \$13,279, respectively.

In 2015, BPU entered into a capital lease agreement for financing an inserter machine. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The asset cost was \$60,606 with related accumulated depreciation of \$10,101.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, were as follows:

Year Ended December 31,		
2016	\$	14,832
2017		14,832
2018		14,832
2019		14,832
2020		3,708
Total Minimum Lease Payments	\$	63,036
Less: Amount Representing Interest		10,173
Present Value of Minimum Lease Payments	\$	52,863

**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 participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for all its insurance except for employee health insurance which is through Health Partners. The LMCIT operates 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 reserved amounts for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to 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.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 9 PENSION PLANS**

**Pension Description**

BPU participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

All full-time employees of BPU are covered by the General Employees Retirement Fund (GERF). GERF members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

**Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2015 while BPU was required to contribute 7.50%. The BPU's contributions to the GERF for the year ended December 31, 2015, were \$251,138. BPU's contributions were equal to the required contributions as set by state statute.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Pension Costs**

At December 31, 2015, BPU reported a liability of \$2,814,108 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. BPU's proportion of the net pension liability was based on BPU's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015 BPU's proportion was 0.0543 percent which was an increase of .003 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, BPU recognized pension expense of \$410,345 for its proportionate share of the GERF's pension expense.

At December 31, 2015, BPU reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 141,878
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	266,399	
Changes in Proportion and Differences Between BPU Contributions and Proportionate Share of Contributions	105,694	-
BPU Contributions Subsequent to the Measurement Date	129,692	-
Total	<u>\$ 501,785</u>	<u>\$ 141,878</u>

\$129,692 is reported as deferred outflows of resources related to pensions resulting from BPU contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amounts
2016	\$ 54,538
2017	54,538
2018	54,539
2019	66,600

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

<u>Assumptions</u>	<u>GERF</u>
Inflation	2.75% per Year
Salary Increases	3.50% per Year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1<sup>st</sup> through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GEF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2015: the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by 0.25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	<u>100%</u>	

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liability Sensitivity**

The following presents BPU's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what BPU's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease in in Discount Rate	Current Discount Rate	1% Increase in in Discount Rate
GERF Discount Rate	6.90%	7.90%	8.90%
BPU's Proportionate Share of the GERF Net Pension Liability	\$ 4,427,778	\$ 2,814,108	\$ 1,483,942

**Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), which addresses how state and local governments must account for and report their obligations related to postemployment healthcare and other non-pension benefits (referred to as Other Postemployment Benefits or "OPEB"). GASB 45 requires that local governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they do for pensions.

**Plan Description and Funding Policy**

BPU provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. BPU provides benefits for retirees as required by *Minnesota Statutes* §471.61 subdivision 2b. Active employees who retire from BPU when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under BPU's health



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

**Plan Description and Funding Policy (Continued)**

benefits program. Pursuant to the provisions of the plan, retirees are required to pay 100% of the total premium cost. As of January 1, 2015, there were two retirees receiving health benefits from BPU's health plan.

**Annual OPEB Cost and Net OPEB Obligation**

BPU's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of BPU's annual OPEB cost of the year, the amount actually contributed to the plan, and changes in BPU's net OPEB obligation to the plan.

Annual Required Contribution (ARC):	\$ 55,214
Interest on Net OPEB Obligation	665
Adjustment to ARC	(6,069)
Annual OPEB Cost	<u>49,810</u>
Contributions during the year	<u>49,108</u>
Net OPEB Obligation	702
Net OPEB - Beginning of the Year	<u>16,635</u>
Net OPEB - End of the Year	<u><u>\$ 17,337</u></u>

BPU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current year and each of the preceding two years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2015	\$ 49,810	\$ 49,108	99%	\$ 17,337
December 31, 2014	\$ 54,308	\$ 73,497	135%	\$ 16,635
December 31, 2013	\$ 56,234	\$ 71,142	127%	\$ 35,824

**Funding Status and Funding Progress**

As of January 1, 2015, the most recent actuarial valuation date, BPU had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$482,663 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$482,663. The annual payroll of active employees covered by the plan was \$2,083,138 and the ratio of the UAAL to the covered payroll was 23.17%.

Actuarial valuations of an ongoing plan 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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

**Funding Status and Funding Progress (Continued)**

whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

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 and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the rate of the expected long-term investment returns on the employer's own investments. The initial healthcare trend rate was 7.2%, reduced by decrements to an ultimate rate of 5% after nine years. The UAAL is being amortized at a level dollar amount over a 30-year period on an open 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 based on energy sales to retail electric customers in the previous month.

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

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

**NOTE 12 COMMITMENTS**

**Power Contract**

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE 13 SUBSEQUENT EVENTS**

**Power Contract**

On January 4, 2016, BPU signed a market based rate full requirements power sales agreement with AEP Energy Partners, Inc. for the period July 1, 2019 through May 31, 2025.

**Issuance of 2016B General Obligation Equipment Certificates of Indebtedness**

On April 18, 2016, the City of Brainerd issued \$1,105,000 in G.O. Equipment Certificates of Indebtedness of which \$400,000 will be the responsibility of BPU. The Certificates have a term of 5 years maturing in 2021 with interest rates from .9% to 1.3%, for the purchase of bucket truck for Electric Department and the purchase of back-up generator for Water Plant.

**NOTE 14 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended December 31, 2015, BPU adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. These pronouncements require the restatement of the December 31, 2014, net position as follows:

	Department			Total;
	Electric	Water	Wastewater	
Net Position, 12/31/2014, as Previously Reported	\$ 15,674,816	\$ 9,508,544	\$ 19,770,735	\$ 44,954,095
Cumulative Affect of Application of GASB 68, Net Pension Liability	(1,204,908)	(602,454)	(602,454)	(2,409,816)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for BPU Contributions Made After the Measurement Period (7/1/14 - 12/31/2014)	61,443	30,721	30,721	122,885
Net Position, 12/31/2014, as Restated	<u>\$ 14,531,351</u>	<u>\$ 8,936,811</u>	<u>\$ 19,199,002</u>	<u>\$ 42,667,164</u>

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## REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES  
 BRAINERD, MINNESOTA  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 DECEMBER 31, 2015**

Fiscal Year Ending	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered - Employee Payroll	Proportionate Share of the Net Pension Liability as a % of its Covered - Employee Payroll	Plan Fiduciary Net Position as a % of the Total Pension Liability
June 30, 2015	0.0543%	\$ 2,814,108	\$ 3,189,264	88.24%	78.20%

**BRAINERD PUBLIC UTILITIES  
 BRAINERD, MINNESOTA  
 SCHEDULE OF PERA CONTRIBUTIONS  
 DECEMBER 31, 2015**

Year Ended December 31,	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered - Employee Payroll (d)	Contributions as a % of Covered - Employee Payroll (b/d)
2015	\$ 251,138	\$ 251,138	\$ -	\$ 3,354,434	7.49%
2014	\$ 213,149	\$ 213,149	\$ -	\$ 2,939,984	7.25%

**BRAINERD PUBLIC UTILITIES  
 BRAINERD, MINNESOTA  
 SCHEDULE OF FUNDING PROGRESS OTHER POSTEMPLOYMENT BENEFIT PLAN  
 YEAR ENDED DECEMBER 31, 2015**

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)
01/01/2015	\$ -	\$ 482,663	\$ 482,663	0%	\$ 2,083,138	23.2%
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, 2015  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
<b>CAPITAL ASSETS</b>			
Construction in Progress	\$ 230,342	\$ 61,907	\$ 292,249
In Service	5,186,220	33,848,068	39,034,288
Total Investment in Capital Assets	5,416,562	33,909,975	39,326,537
Less: Accumulated Depreciation	(224,810)	(15,613,457)	(15,838,267)
Net Capital Assets	5,191,752	18,296,518	23,488,270
<b>RESTRICTED ASSETS</b>			
Cash and Investments			
Customer Deposits	-	252,748	252,748
City of Brainerd Contribution	-	48,791	48,791
Conservation Incentive Program	-	290,586	290,586
Debt Service Reserve	547,645	1,048,969	1,596,614
Total Restricted Cash and Investments	547,645	1,641,094	2,188,739
Bonds and Notes Receivable	-	-	-
Notes Receivable - Interest	-	-	-
Total Restricted Assets	547,645	1,641,094	2,188,739
<b>CURRENT ASSETS</b>			
Cash and Investments	252,943	1,662,290	1,915,233
Accounts Receivable	-	2,054,142	2,054,142
Interest Receivable	-	23,654	23,654
Due from the City of Brainerd	-	26,524	26,524
Inventory	-	856,402	856,402
Prepaid Expenses	8,257	79,957	88,214
Total Current Assets	261,200	4,702,969	4,964,169
<b>OTHER ASSETS</b>			
Service Territory Acquisitions, Net of			
Accumulated Amortization	-	260,063	260,063
Total Assets	6,000,597	24,900,644	30,901,241
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related	9,032	289,731	298,763
Total Assets and Deferred Outflows of Resources	\$ 6,009,629	\$ 25,190,375	\$ 31,200,004

WATER	WASTEWATER TREATMENT	TOTALS	
		2015	2014
\$ -	\$ -	\$ 292,249	\$ 997,851
17,654,954	36,402,863	93,092,105	90,167,455
17,654,954	36,402,863	93,384,354	91,165,306
(7,974,034)	(9,745,662)	(33,557,963)	(31,264,469)
9,680,920	26,657,201	59,826,391	59,900,837
-	-	252,748	251,014
-	112,237	161,028	157,804
-	-	290,586	316,874
219,358	1,642,589	3,458,561	3,007,390
219,358	1,754,826	4,162,923	3,733,082
-	6,635,000	6,635,000	8,889,567
-	77,000	77,000	83,100
219,358	8,466,826	10,874,923	12,705,749
1,383,012	4,590,538	7,888,783	7,731,177
269,090	365,276	2,688,508	2,873,381
-	-	23,654	17,449
5,546	88,086	120,156	117,523
91,106	-	947,508	1,031,227
-	4,692	92,906	81,440
1,748,754	5,048,592	11,761,515	11,852,197
-	-	260,063	273,743
11,649,032	40,172,619	82,722,892	84,732,526
108,486	94,536	501,785	-
\$ 11,757,518	\$ 40,267,155	\$ 83,224,677	\$ 84,732,526

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING STATEMENT OF NET POSITION BY DEPARTMENT (CONTINUED)  
DECEMBER 31, 2015  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
<b>NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>			
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ (764,408)	\$ 12,691,659	\$ 11,927,251
Restricted for Debt Service	531,645	440,110	971,755
Unrestricted	153,276	2,186,425	2,339,701
Total Net Position	<u>(79,487)</u>	<u>15,318,194</u>	<u>15,238,707</u>
<b>LONG-TERM LIABILITIES</b>			
Revenue Bonds Payable	5,385,000	5,385,000	10,770,000
General Obligation Sewer Revenue Notes Payable	-	-	-
General Obligation Build America Bonds Payable	-	-	-
Capital Lease Payable	-	25,199	25,199
Compensated Absences	44,551	299,754	344,305
Net Pension Liability	50,654	1,624,866	1,675,520
Revenue Bond Premium	211,160	-	211,160
Other Postemployment Benefit Obligation	-	10,403	10,403
Total Long-Term Liabilities	<u>5,691,365</u>	<u>7,345,222</u>	<u>13,036,587</u>
<b>CURRENT LIABILITIES</b>			
Accounts Payable	8,972	940,996	949,968
Revenue Bonds Payable	360,000	775,000	1,135,000
General Obligation Sewer Revenue Notes Payable	-	-	-
General Obligation Build America Bonds Payable	-	-	-
Capital Lease Payable	-	6,519	6,519
Accrued Expenses			
Salaries and Withholding Taxes	9,194	46,903	56,097
Sales Taxes	31	62,496	62,527
Current Liabilities Payable from Restricted Assets:			
Bond Interest	16,000	22,000	38,000
Payable to City of Brainerd	-	48,791	48,791
Conservation Incentive Program Payable	-	290,586	290,586
Customer Deposits	-	252,748	252,748
Total Current Liabilities	<u>394,197</u>	<u>2,446,039</u>	<u>2,840,236</u>
Total Liabilities	<u>6,085,562</u>	<u>9,791,261</u>	<u>15,876,823</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Related	2,554	81,920	84,474
Total Net Position, Liabilities and Deferred Inflows of Resources	<u>\$ 6,008,629</u>	<u>\$ 25,191,375</u>	<u>\$ 31,200,004</u>

WATER	WASTEWATER TREATMENT	TOTALS	
		2015	2014
\$ 7,958,780	\$ 6,741,629	\$ 26,627,660	\$ 24,749,890
198,058	8,123,489	9,293,302	9,214,574
933,194	4,395,254	7,668,149	10,989,631
<u>9,090,032</u>	<u>19,260,372</u>	<u>43,589,111</u>	<u>44,954,095</u>
1,540,000	-	12,310,000	13,605,000
-	217,000	217,000	429,000
-	18,247,000	18,247,000	19,476,000
8,400	8,399	41,998	-
145,785	157,746	647,836	699,234
608,410	530,178	2,814,108	-
101,941	-	313,101	339,785
3,467	3,467	17,337	16,635
<u>2,408,003</u>	<u>19,163,790</u>	<u>34,608,380</u>	<u>34,565,654</u>
21,807	7,587	979,362	1,341,107
160,000	-	1,295,000	1,060,000
-	212,000	212,000	207,000
-	1,229,000	1,229,000	1,190,000
2,173	2,173	10,865	-
21,875	22,166	100,138	299,365
1,654	-	64,181	69,913
21,300	231,100	290,400	319,700
-	112,237	161,028	157,804
-	-	290,586	316,874
-	-	252,748	251,014
<u>228,809</u>	<u>1,816,263</u>	<u>4,885,308</u>	<u>5,212,777</u>
2,636,812	20,980,053	39,493,688	39,778,431
30,674	26,730	141,878	-
<u>\$ 11,757,518</u>	<u>\$ 40,267,155</u>	<u>\$ 83,224,677</u>	<u>\$ 84,732,526</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BY DEPARTMENT  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2014)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
<b>OPERATING REVENUES</b>			
Utility Revenues			
Residential	\$ -	\$ 5,306,340	\$ 5,306,340
Commercial	-	6,709,437	6,709,437
Large Commercial	-	5,085,573	5,085,573
City of Brainerd	-	334,818	334,818
Internal Use	-	683,180	683,180
Minnesota Power	-	-	-
Total Utility Revenues	-	18,119,348	18,119,348
Other Operating Revenues			
Penalties	-	117,015	117,015
Other	-	172,723	172,723
Total Other Operating Revenues	-	289,738	289,738
Total Operating Revenues	-	18,409,086	18,409,086
<b>OPERATING EXPENSES</b>			
Generation, Production, and Treatment			
Salaries and Wages	322,381	-	322,381
Purchased Services	15,880	-	15,880
Supplies and Maintenance	10,339	-	10,339
Employee Benefits	152,040	-	152,040
Other Charges	29,375	-	29,375
Total Generation, Production, and Treatment Expenses	530,015	-	530,015
Purchased Power	(1,240,862)	12,527,502	11,286,640
Distribution and Collection			
Salaries and Wages	-	864,968	864,968
Purchased Services	-	254,414	254,414
Supplies and Maintenance	-	170,648	170,648
Employee Benefits	-	378,885	378,885
Other Charges	-	48,942	48,942
Total Distribution and Collection Expenses	-	1,717,857	1,717,857

WATER	WASTEWATER TREATMENT	TOTALS	
		2015	2014
\$ 1,088,502	\$ 1,286,709	\$ 7,681,551	\$ 7,543,361
944,411	1,057,212	8,711,060	8,529,693
-	-	5,085,573	4,914,978
81,705	12,826	429,349	414,443
62,447	389	746,016	821,474
-	-	-	142,324
<u>2,177,065</u>	<u>2,357,136</u>	<u>22,653,549</u>	<u>22,366,273</u>
18,850	26,313	162,178	164,160
<u>39,472</u>	<u>15,961</u>	<u>228,156</u>	<u>185,062</u>
<u>58,322</u>	<u>42,274</u>	<u>390,334</u>	<u>349,222</u>
2,235,387	2,399,410	23,043,883	22,715,495
233,537	307,008	862,926	728,866
98,587	553,988	668,455	734,552
48,594	69,581	128,514	159,229
60,620	48,037	260,697	231,772
545	22,090	52,010	30,820
<u>441,883</u>	<u>1,000,704</u>	<u>1,972,602</u>	<u>1,885,239</u>
-	-	11,286,640	12,269,833
246,740	115,466	1,227,174	1,107,893
128,903	101,715	485,032	409,622
52,280	8,972	231,900	192,051
55,018	8,238	442,141	379,324
14,293	55	63,290	31,424
<u>497,234</u>	<u>234,446</u>	<u>2,449,537</u>	<u>2,120,314</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, 2015  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2014)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
<b>OPERATING EXPENSES (CONTINUED)</b>			
Administration			
Salaries and Wages	\$ 36,689	\$ 547,505	\$ 584,194
Purchased Services	105,637	285,321	390,958
Supplies and Maintenance	5,008	60,607	65,615
Insurance and Bonds	59,202	62,475	121,677
Employee Benefits	15,679	316,917	332,596
Other Charges	10,252	168,760	179,012
Total Administration Expenses	<u>232,467</u>	<u>1,441,585</u>	<u>1,674,052</u>
Depreciation and Amortization	174,095	1,360,596	1,534,691
Total Operating Expenses	<u>(304,285)</u>	<u>17,047,540</u>	<u>16,743,255</u>
<b>OPERATING INCOME (LOSS)</b>	304,285	1,361,546	1,665,831
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest Income - Investments	-	103,451	103,451
Interest Income - Notes Receivable	-	-	-
Bond Premium	15,357	-	15,357
Interest Expense	(196,603)	(285,137)	(481,740)
Local Option Sales Tax	-	-	-
Federal Grant Revenue - Build America Bond	-	-	-
Bond Issuance Costs	-	-	-
Gain (Loss) on Disposal of Capital Assets	-	1,000	1,000
Net Nonoperating Revenue (Expense)	<u>(181,246)</u>	<u>(180,686)</u>	<u>(361,932)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	123,039	1,180,860	1,303,899
<b>TRANSFERS TO THE CITY</b>	-	(596,543)	(596,543)
<b>CHANGE IN NET POSITION</b>	<u>\$ 123,039</u>	<u>\$ 584,317</u>	<u>\$ 707,356</u>



WATER	WASTEWATER TREATMENT	TOTALS	
		2015	2014
\$ 220,850	\$ 209,693	\$ 1,014,737	\$ 952,930
59,250	49,024	499,232	397,899
20,259	15,917	101,791	92,975
62,543	63,980	248,200	118,465
66,974	44,677	444,247	394,971
26,325	31,139	236,476	188,821
<u>456,201</u>	<u>414,430</u>	<u>2,544,683</u>	<u>2,146,061</u>
655,768	1,392,208	3,582,667	3,300,808
<u>2,051,086</u>	<u>3,041,788</u>	<u>21,836,129</u>	<u>21,722,255</u>
184,301	(642,378)	1,207,754	993,240
2,599	98,184	204,234	398,562
-	221,339	221,339	236,273
11,327	-	26,684	3,839
(49,237)	(664,115)	(1,195,092)	(1,071,056)
-	907,123	907,123	881,028
-	141,217	141,217	141,444
-	-	-	(206,329)
4,231	-	5,231	-
<u>(31,080)</u>	<u>703,748</u>	<u>310,736</u>	<u>383,761</u>
153,221	61,370	1,518,490	1,377,001
-	-	(596,543)	(611,725)
<u>\$ 153,221</u>	<u>\$ 61,370</u>	<u>\$ 921,947</u>	<u>\$ 765,276</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Cost			
	12/31/2014	Additions	Retirements	12/31/2015
<b>Electric Department</b>				
<u>Generation</u>				
Land and Land Improvements	\$ 276,000	\$ -	\$ -	\$ 276,000
Generation Facilities	2,463,147	2,445,182	-	4,908,329
Total Generation	2,739,147	2,445,182	-	5,184,329
<u>Distribution</u>				
Land and Land Improvements	186,028	-	-	186,028
Distribution System	27,735,285	659,367	352,765	28,041,887
Street and Security Lighting System	569,136	-	-	569,136
Machinery and Equipment	718,437	76,792	49,159	746,070
Transportation Equipment	1,145,053	232,232	113,919	1,263,366
Total Distribution	30,353,939	968,391	515,843	30,806,487
Total Electric Department	33,093,086	3,413,573	515,843	35,990,816
<b>Water Department</b>				
<u>Production</u>				
Structures and Improvements	1,688,355	11,511	53,629	1,646,237
Wells, Pumps and Accessories	420,628	18,857	-	439,485
Water Treatment Plant Equipment	1,775,498	115,623	125,150	1,765,971
Total Production	3,884,481	145,991	178,779	3,851,693
<u>Distribution</u>				
Distribution System	12,031,139	453,459	422,518	12,062,080
Machinery and Equipment	266,886	17,206	22,182	261,910
Transportation Equipment	298,735	-	-	298,735
Total Water Distribution	12,596,760	470,665	444,700	12,622,725
Total Water Department	16,481,241	616,656	623,479	16,474,418
<b>Wastewater Treatment Department</b>				
Land and Land Improvements	35,485	-	-	35,485
Collection System	3,794,953	35,831	-	3,830,784
Treatment Facility	30,595,007	53,315	59,325	30,588,997
Machinery and Equipment	357,590	-	4,421	353,169
Transportation Equipment	124,115	-	-	124,115
Total Wastewater Treatment Department	34,907,150	89,146	63,746	34,932,550
<b>General Plant</b>				
Land and Land Improvements	1,452,904	-	-	1,452,904
Service Center	3,603,696	-	-	3,603,696
Furniture and Fixtures	382,507	79,520	71,177	390,850
Transportation Equipment	181,071	-	-	181,071
Storage Building	65,800	-	-	65,800
Total General Plant	5,685,978	79,520	71,177	5,694,321
Total Capital Assets in Service	90,167,455	4,198,895	1,274,245	93,092,105
Construction Work in Progress	997,851	2,088,926	2,794,528	292,249
Total Investment in Capital Assets	\$ 91,165,306	\$ 6,287,821	\$ 4,068,773	\$ 93,384,354

Composite Depreciation Rates	Accumulated Depreciation				Percent of Asset Balance
	12/31/2014	Additions	Retirements	12/31/2015	
0.0%	\$ -	\$ -	\$ -	\$ -	0.0%
3.5%	50,715	173,780	-	224,495	4.6%
3.4%	<u>50,715</u>	<u>173,780</u>	<u>-</u>	<u>224,495</u>	4.3%
0.0%	-	-	-	-	0.0%
3.9%	11,219,416	1,098,291	352,765	11,964,942	42.7%
4.4%	269,773	24,783	-	294,556	51.8%
7.2%	491,386	54,051	49,157	496,280	66.5%
4.5%	851,193	56,993	113,919	794,267	62.9%
4.0%	<u>12,831,768</u>	<u>1,234,118</u>	<u>515,841</u>	<u>13,550,045</u>	44.0%
	<u>12,882,483</u>	<u>1,407,898</u>	<u>515,841</u>	<u>13,774,540</u>	
1.4%	1,592,528	22,954	53,630	1,561,852	94.9%
9.7%	23,021	42,485	-	65,506	14.9%
5.2%	653,031	91,012	125,150	618,893	35.0%
4.1%	<u>2,268,580</u>	<u>156,451</u>	<u>178,780</u>	<u>2,246,251</u>	58.3%
3.5%	4,555,142	424,257	422,518	4,556,881	37.8%
5.9%	168,695	15,347	22,185	161,857	61.8%
5.2%	184,228	15,587	-	199,815	66.9%
3.6%	<u>4,908,065</u>	<u>455,191</u>	<u>444,703</u>	<u>4,918,553</u>	39.0%
3.7%	<u>7,176,645</u>	<u>611,642</u>	<u>623,483</u>	<u>7,164,804</u>	43.5%
0.0%	-	-	-	-	0.0%
2.7%	2,627,355	103,712	-	2,731,067	71.3%
4.1%	5,131,070	1,255,561	59,325	6,327,306	20.7%
4.1%	274,393	14,452	4,420	284,425	80.5%
0.0%	<u>124,115</u>	<u>-</u>	<u>-</u>	<u>124,115</u>	100.0%
3.9%	8,156,933	1,373,725	63,745	9,466,913	27.1%
0.9%	328,845	12,551	-	341,396	23.5%
3.7%	2,172,879	132,674	-	2,305,553	64.0%
4.5%	376,462	17,490	71,177	322,775	82.6%
4.7%	114,018	8,470	-	122,488	67.6%
5.0%	56,204	3,290	-	59,494	90.4%
3.1%	<u>3,048,408</u>	<u>174,475</u>	<u>71,177</u>	<u>3,151,706</u>	55.3%
3.8%	31,264,469	3,567,740	1,274,246	33,557,963	36.0%
	-	-	-	-	
3.8%	<u>\$ 31,264,469</u>	<u>\$ 3,567,740</u>	<u>\$ 1,274,246</u>	<u>\$ 33,557,963</u>	35.9%

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## OTHER INFORMATION

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**BRainerd Public Utilities  
BRainerd, Minnesota  
Electric Distribution Department Statistics  
For the Ten Years Ended December 31, 2006 Through 2015  
(Unaudited)**

	2006	2007	2008	2009	2010	2011
<b>Electric Capital Assets</b>						
In Service (Thousands)	\$ 19,402	\$ 20,851	\$ 25,166	\$ 28,142	\$ 29,559	\$ 29,876
Investment Per Meter	\$ 2,512	\$ 2,698	\$ 3,228	\$ 3,607	\$ 3,778	\$ 3,825
Investment Per Dollar of Electric Revenue	\$ 1.29	\$ 1.22	\$ 1.45	\$ 1.75	\$ 1.79	\$ 1.70
<b>Accumulated Depreciation (Thousands)</b>						
Percent of Capital Assets	49.4%	49.1%	37.4%	37.0%	38.5%	39.3%
Annual Depreciation (Thousands)	\$ 820	\$ 851	\$ 884	\$ 1,086	\$ 1,137	\$ 1,191
Percent of Annual Depreciation to Average Capital Assets in Service	4.3%	4.2%	3.8%	4.1%	3.9%	4.0%
<b>Number of Meters (Year-End)</b>	7,723	7,728	7,796	7,801	7,824	7,810
<b>Cost of Power</b>						
KWH Purchased (Thousands)	259,671	262,543	256,066	230,564	239,580	242,241
KWH Generated	-	-	-	-	-	-
Total Cost (Thousands)	\$ 10,272	\$ 12,112	\$ 11,588	\$ 11,753	\$ 12,873	\$ 14,488
Cost Per KWH Purchased (Cents)	3.96	4.61	4.53	5.10	5.37	5.98
Percent of System Loss	4.7%	4.8%	5.6%	4.2%	3.7%	3.3%
Average Load Factor for Year	73.0%	71.4%	72.0%	70.2%	70.3%	71.0%
<b>Electric Revenue</b>						
KWH Sold (Thousands)	247,585	249,974	241,640	221,000	230,756	234,226
Electric Utility Revenue (Thousands)	\$ 15,051	\$ 17,149	\$ 17,307	\$ 16,079	\$ 16,485	\$ 17,559
Per KWH Sold (Cents)	6.08	6.86	7.16	7.28	7.14	7.50
Gross Margin Per KWH (Cents)	2.12	2.25	2.63	2.18	1.77	1.52
<b>Operating Income (Loss) (Thousands)</b>	\$ 1,643	\$ 1,989	\$ 2,417	\$ 874	\$ 180	\$ (459)
<b>Change in Net Position (Thousands)</b>	\$ 1,129	\$ 1,579	\$ 1,703	\$ 45	\$ (882)	\$ (1,217)

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

2012	2013	2014	2015
\$ 30,874	\$ 32,385	\$ 36,146	\$ 39,034
\$ 3,948	\$ 4,120	\$ 4,558	\$ 4,949
\$ 1.71	\$ 1.91	\$ 2.01	\$ 2.15
\$ 12,556	\$ 13,651	\$ 14,892	\$ 15,838
40.7%	42.2%	41.2%	40.6%
\$ 1,199	\$ 1,238	\$ 1,344	\$ 1,520
4.0%	3.9%	3.9%	4.0%
7,820	7,861	7,931	7,946
247,092	202,882	186,738	167,978
-	-	5,601	18,554
\$ 14,498	\$ 12,881	\$ 12,270	\$ 11,287
5.87	6.35	6.60	6.72
2.7%	2.1%	3.6%	3.4%
72.4%	67.6%	69.9%	66.8%
240,530	198,534	185,427	180,256
\$ 18,054	\$ 16,973	\$ 18,009	\$ 18,119
7.51	8.56	9.71	10.05
1.64	2.21	3.11	3.33
\$ 223	\$ 556	\$ 1,653	\$ 1,666
\$ (772)	\$ (400)	\$ 621	\$ 707

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
WATER DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2006 THROUGH 2015  
(UNAUDITED)**

	2006	2007	2008	2009	2010	2011
<b>Water Capital Assets</b>						
In Service (Thousands)	\$ 12,689	\$ 13,817	\$ 14,963	\$ 15,464	\$ 15,384	\$ 15,524
Investment Per Meter	\$ 2,712	\$ 2,962	\$ 3,244	\$ 3,355	\$ 3,326	\$ 3,359
Investment Per Dollar of Water Revenue	\$ 7.94	\$ 7.65	\$ 9.30	\$ 9.88	\$ 8.92	\$ 8.86
<b>Accumulated Depreciation (Thousands)</b>						
Percent of Capital Assets	43.7%	43.1%	41.6%	42.8%	42.1%	44.2%
Annual Depreciation (Thousands)	\$ 509	\$ 465	\$ 471	\$ 470	\$ 489	\$ 493
Percent of Annual Depreciation to Average Capital Assets in Service	4.1%	3.5%	3.3%	3.1%	3.2%	3.2%
<b>Number of Meters (Year-End)</b>	4,679	4,664	4,613	4,609	4,626	4,621
<b>Cost of Water Production</b>						
Gallons Pumped into Distribution System (Thousands)	817,520	750,756	540,542	568,687	514,258	500,195
Total Cost (Thousands)	\$ 419	\$ 419	\$ 432	\$ 435	\$ 410	\$ 466
Cost Per Thousand Gallons Pumped	\$ 0.51	\$ 0.55	\$ 0.80	\$ 0.76	\$ 0.80	\$ 0.93
Percent of System Loss	11.2%	9.7%	10.5%	20.9%	12.2%	12.9%
<b>Water Revenue</b>						
Gallons Sold (Thousands)	726,260	678,254	483,738	449,823	451,584	435,473
Water Utility Revenue (Thousands)	\$ 1,598	\$ 1,806	\$ 1,609	\$ 1,565	\$ 1,725	\$ 1,752
Per Thousand Gallons Sold	\$ 2.20	\$ 2.66	\$ 3.33	\$ 3.48	\$ 3.82	\$ 4.02
Gross Margin Per Thousand Gallons Sold	\$ 1.69	\$ 2.11	\$ 2.53	\$ 2.72	\$ 3.02	\$ 3.09
<b>Operating Income (Loss) (Thousands)</b>	\$ (18)	\$ 168	\$ (120)	\$ (172)	\$ (34)	\$ (66)
<b>Change in Net Position (Thousands) Before Capital Contributions from City</b>						
	\$ (57)	\$ (15)	\$ 186	\$ (112)	\$ (171)	\$ (34)

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



2012	2013	2014	2015
\$ 15,814	\$ 16,153	\$ 17,653	\$ 17,655
\$ 3,407	\$ 3,473	\$ 3,814	\$ 3,797
\$ 8.03	\$ 7.62	\$ 8.60	\$ 8.11
\$ 7,349	\$ 7,815	\$ 7,949	\$ 7,974
46.5%	48.4%	45.0%	45.2%
\$ 483	\$ 493	\$ 553	\$ 656
3.1%	3.1%	3.3%	3.7%
4,642	4,651	4,629	4,650
497,183	507,118	500,441	506,271
\$ 477	\$ 478	\$ 481	\$ 481
\$ 0.96	\$ 0.94	\$ 0.96	\$ 0.95
11.8%	14.7%	16.3%	18.7%
438,609	432,521	418,668	411,825
\$ 1,969	\$ 2,119	\$ 2,053	\$ 2,177
\$ 4.49	\$ 4.90	\$ 4.90	\$ 5.29
\$ 3.53	\$ 3.96	\$ 3.94	\$ 4.34
\$ 183	\$ 304	\$ 171	\$ 184
\$ 184	\$ 299	\$ 143	\$ 153

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
WASTEWATER TREATMENT DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2006 THROUGH 2015  
(UNAUDITED)**

	2006	2007	2008	2009	2010	2011
<b>Wastewater Treatment Capital Assets</b>						
In Service (Thousands)	\$ 13,179	\$ 13,223	\$ 13,501	\$ 14,299	\$ 26,975	\$ 35,931
Investment Per Account	\$ 2,851	\$ 2,867	\$ 2,958	\$ 3,134	\$ 5,901	\$ 7,862
Investment Per Dollar of Wastewater Treatment Revenue	\$ 9.05	\$ 7.90	\$ 6.55	\$ 6.76	\$ 12.34	\$ 15.91
<b>Accumulated Depreciation (Thousands)</b>	\$ 7,801	\$ 8,559	\$ 9,076	\$ 10,023	\$ 5,402	\$ 4,401
Percent of Capital Assets	59.2%	64.7%	67.2%	70.1%	20.0%	12.2%
Annual Depreciation (Thousands)	\$ 739	\$ 770	\$ 763	\$ 1,056	\$ 986	\$ 1,644
Percent of Annual Depreciation to Average Capital Assets in Service	5.6%	5.8%	5.7%	7.6%	4.8%	5.2%
<b>Number of Accounts (Year-End)</b>	4,622	4,612	4,564	4,562	4,571	4,570
<b>Cost of Wastewater Treatment</b>						
Flow in Gallons Processed (Thousands)	858,830	751,025	762,208	765,652	675,928	723,764
Total Treatment Cost (Thousands)	\$ 402	\$ 505	\$ 506	\$ 567	\$ 638	\$ 1,016
Cost Per Thousand Gallons Processed	\$ 0.47	\$ 0.67	\$ 0.66	\$ 0.74	\$ 0.94	\$ 1.40
Percent of System Loss	24.9%	17.2%	15.7%	16.1%	16.1%	24.7%
<b>Wastewater Treatment Revenue</b>						
Flow in Gallons Sold (Thousands)	644,675	621,604	642,762	642,413	567,138	545,138
Wastewater Treatment Utility Revenue (Thousands)	\$ 1,457	\$ 1,673	\$ 2,062	\$ 2,115	\$ 2,186	\$ 2,258
Per Thousand Gallons Sold	\$ 2.26	\$ 2.69	\$ 3.21	\$ 3.29	\$ 3.85	\$ 4.14
Gross Margin Per Thousand Gallons Sold	\$ 1.79	\$ 2.02	\$ 2.55	\$ 2.55	\$ 2.91	\$ 2.74
<b>Operating Income (Loss) (Thousands)</b>	\$ (247)	\$ (271)	\$ 95	\$ (142)	\$ (101)	\$ (1,079)
<b>Change in Net Position (Thousands)</b>	\$ (183)	\$ 300	\$ 927	\$ 657	\$ 840	\$ (402)

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

2012	2013	2014	2015
\$ 36,329	\$ 36,325	\$ 36,368	\$ 36,403
\$ 7,908	\$ 7,892	\$ 7,937	\$ 7,914
\$ 15.77	\$ 15.93	\$ 15.78	\$ 15.44
\$ 5,708	\$ 7,046	\$ 8,424	\$ 9,746
15.7%	19.4%	23.2%	26.8%
\$ 1,374	\$ 1,384	\$ 1,382	\$ 1,392
3.8%	3.8%	3.8%	3.8%
4,594	4,603	4,582	4,600
725,787	677,322	799,681	700,235
\$ 975	\$ 1,082	\$ 1,106	\$ 1,090
\$ 1.34	\$ 1.60	\$ 1.38	\$ 1.56
24.6%	19.7%	30.7%	22.7%
547,053	544,183	554,578	541,213
\$ 2,304	\$ 2,281	\$ 2,304	\$ 2,357
\$ 4.21	\$ 4.19	\$ 4.15	\$ 4.36
\$ 2.87	\$ 2.59	\$ 2.77	\$ 2.80
\$ (706)	\$ (843)	\$ (831)	\$ (642)
\$ (2)	\$ (482)	\$ 2	\$ 61

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## OTHER REPORTS SECTION

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**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, 2015, 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 9, 2016.

**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 BPU'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.

**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*.

**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 9, 2016

**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 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, 2015, 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 9, 2016.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six main 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 BPU failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other 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 BPU 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.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 9, 2016