

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA**

FINANCIAL REPORT

DECEMBER 31, 2016 AND 2015

**BRAINERD PUBLIC UTILITIES
TABLE OF CONTENTS
DECEMBER 31, 2016 AND 2015**

INTRODUCTORY SECTION

Organizational Data.....	1
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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.....	45
Schedule of PERA Contributions.....	46
Schedule of Funding Progress Other Postemployment Benefit Plan.....	47

SUPPLEMENTARY INFORMATION

Combining Statements of Net Position by Department.....	48
Combining Statements of Revenues, Expenses and Changes in Net Position by Department.....	52
Schedule of Capital Assets and Accumulated Depreciation.....	56

OTHER INFORMATION

Electric Department Statistics.....	58
Water Department Statistics.....	60
Wastewater Treatment Department Statistics.....	62

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 <i>Government Auditing Standards</i>	64
Independent Auditors' Report on Minnesota Legal Compliance.....	66

INTRODUCTORY SECTION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ORGANIZATIONAL DATA
DECEMBER 31, 2016**

COMMISSION

		<u>Term Expires December 31,</u>
President	Mark O'Day	2020
Vice President	Dolly Matten	2019
Commission Member	Lucy Nesheim	2017
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



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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, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require management discussion and analysis, 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 17, 2017, 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 17, 2017

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**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2016 AND 2015
(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, 2016 and 2015. 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 2015 to 2016 decreased \$0.1 million, or .5%, from \$43.6 million to \$43.5 million and from 2014 to 2015 decreased \$1.4 million, or 3.0%, from \$45.0 million to \$43.6 million.
- Combined total assets and deferred outflow of resources from 2015 to 2016 increased \$6.9 million, or 8.2%, from \$83.2 million to \$90.1 million and from 2014 to 2015 decreased \$1.5 million, or 1.8%, from \$84.7 million to \$83.2 million.
- Combined total liabilities from 2015 to 2016 increased \$6.7 million, or 17.0%, from \$39.5 to \$46.2 million and from 2014 to 2015 decreased \$0.3 million, or 0.7%, from \$39.8 million to \$39.5 million.
- Combined total operating revenue from 2015 to 2016 increased \$0.2 million, or 0.9%, from \$23.0 million to \$23.2 million and from 2014 to 2015 increased \$0.3 million, or 1.4%, from \$22.7 million to \$23.0 million.
- Combined total operating expenses from 2015 to 2016 increased \$1.5 million, or 6.4%, from \$21.8 million to \$23.3 million and from 2014 to 2015 increased \$0.1 million, or 0.5% from \$21.7 million to \$21.8 million.

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, 2016 AND 2015
(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 71.5% and 71.9% of total assets and deferred outflows of resources as of December 31, 2016 and 2015, respectively. Long-term liabilities represent 44.3% and 41.6% of total liabilities, net position, and deferred inflows of resources as of December 31, 2016 and 2015, respectively. Total net position decreased .3% and 3.0% as of December 31, 2016 and 2015, respectively.

The largest portion of BPU's net position (61.5%), at December 31, 2016, 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 2016, \$10.0 million or 23.3% of BPU's net position represents resources that are restricted. The remaining balance of unrestricted net position of \$6.6 million or 15.2% 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 2015 to 2016 increased \$0.2 million, or 0.8%, from \$23.0 million to \$23.2 million and from 2014 to 2015 increased \$0.4 million, or 1.4%, from \$22.7 million to \$23.0 million.

Combined total operating expenses from 2015 to 2016 increased \$1.5 million, or 6.8%, from \$21.8 million to \$23.3 million and from 2014 to 2015 increased \$0.1 million, or 0.5%, from \$21.7 million to \$21.8 million. The increase in purchased power of \$1.2 million for 2016 was the most significant reason for the increase in total operating expenses. Total operating expenses for the hydro dam for the years 2016 and 2015 were \$1.1 million and \$0.9 million, respectively.

Net nonoperating revenue (expense) from 2015 to 2016 increased \$0.03 million, or 10.0%, from \$0.311 million to \$0.342 million and from 2014 to 2015 decreased \$0.7 million, or 19.0% from \$0.38 to \$0.31 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, 2016 AND 2015
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Net Position
Table 1
(In Thousands of Dollars)

	December 31,			Change	
	2016	2015	2014	2016 to 2015	2015 to 2014
Net Capital Assets	\$ 64,403	\$ 59,826	\$ 59,901	\$ 4,577	\$ (75)
Restricted Assets	11,679	10,875	12,706	804	(1,831)
Current Assets	11,924	11,762	11,852	162	(90)
Other Assets	251	260	274	(9)	(14)
Total Assets	88,257	82,723	84,733	5,534	(2,010)
Deferred Outflows of Resources	1,832	502	-	1,330	502
Total Assets and Deferred Outflows	\$ 90,089	\$ 83,225	\$ 84,733	\$ 6,864	\$ (1,508)
Current Liabilities	\$ 6,271	\$ 4,886	\$ 5,213	\$ 1,385	\$ (327)
Long-Term Liabilities	39,920	34,608	34,566	5,312	42
Total Liabilities	46,191	39,494	39,779	6,697	(285)
Net Investment in Capital Assets	26,744	26,628	24,750	116	1,878
Restricted Net Position	10,113	9,293	9,215	820	78
Unrestricted Net Position	6,613	7,668	10,989	(1,055)	(3,321)
Total Net Position	43,470	43,589	44,954	(119)	(1,365)
Deferred Inflows of Resources	428	142	-	286	142
Total Liabilities, Net Position and Deferred Inflows	\$ 90,089	\$ 83,225	\$ 84,733	\$ 6,864	\$ (1,508)

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2016 AND 2015
(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	
	2016	2015	2014	2016 to 2015	2015 to 2014	2016 to 2015	2015 to 2014
OPERATING REVENUES							
Electric	\$ 18,428	\$ 18,409	\$ 18,284	\$ 19	\$ 125	0.1%	0.7%
Water	2,299	2,235	2,097	64	138	2.9%	6.6%
Wastewater Treatment	2,510	2,400	2,335	110	65	4.6%	2.8%
Total Operating Revenue	23,237	23,044	22,716	193	328	0.8%	1.4%
OPERATING EXPENSES							
Production and Treatment	2,189	1,973	1,885	216	88	10.9%	4.7%
Purchased Power	12,475	11,287	12,270	1,188	(983)	10.5%	-8.0%
Distribution and Collection	2,421	2,449	2,120	(28)	329	-1.1%	15.5%
Administration	2,490	2,545	2,146	(55)	399	-2.2%	18.6%
Depreciation and Amortization	3,752	3,583	3,301	169	282	4.7%	8.5%
Total Operating Expenses	23,327	21,837	21,722	1,490	115	6.8%	0.5%
OPERATING INCOME (LOSS)	(90)	1,207	994	(1,297)	213	-107.5%	21.4%
NONOPERATING REVENUE (EXPENSE)							
Interest Income - Investments	121	204	399	(83)	(195)	-40.7%	48.9%
Interest Income - Notes Receivable	205	222	236	(17)	(14)	-7.7%	-5.9%
Bond Premium	44	27	4	17	23	63.0%	0.0%
Interest Expense	(1,119)	(1,195)	(1,071)	76	(124)	-6.4%	11.6%
Local Option Sales Tax	978	907	881	71	26	7.8%	3.0%
Federal Grant Revenue - Build America Bond	138	141	141	(3)	-	-2.1%	0.0%
Bond Issuance Costs	(79)	-	(206)	(79)	206	0.0%	0.0%
Gain (Loss) on Disposal of Capital Assets	54	5	-	49	5	0.0%	0.0%
Net Nonoperating Revenue	342	311	384	31	(73)	10.0%	-19.0%
INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	252	1,518	1,378	(1,266)	140	-83.4%	10.2%
CONTRIBUTED CAPITAL	310	-	-	310	-	0.0%	0.0%
TRANSFERS TO THE CITY	(681)	(596)	(612)	(85)	16	14.3%	-2.6%
CHANGE IN NET POSITION	(119)	922	766	(1,041)	156	-112.9%	-20.4%
Net Position - Beginning	43,589	42,667	44,188	922	(1,521)	2.2%	-3.4%
NET POSITION - ENDING	<u>\$ 43,470</u>	<u>\$ 43,589</u>	<u>\$ 44,954</u>	<u>\$ (119)</u>	<u>\$ (1,365)</u>	-0.3%	-3.0%

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2016 AND 2015
(UNAUDITED)**

Capital Assets

Net Capital Assets – Table 3, shows changes in net capital assets from 2014 to 2016. Total net capital assets as of December 31, 2016 and 2015 were \$64.4 million and \$59.8 million, respectively.

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

	December 31,			Change	
	2016	2015	2014	2016 to 2015	2015 to 2014
Electric Department					
Generation System	\$ 4,505	\$ 4,684	\$ 2,412	\$ (179)	\$ 2,272
Distribution System	15,838	16,077	16,516	(239)	(439)
Street and Security Lighting System	260	275	299	(15)	(24)
Water Department					
Production Facilities	1,510	1,605	1,616	(95)	(11)
Distribution System	7,159	7,505	7,476	(346)	29
Wastewater Treatment Department					
Lift Station Facilities	998	1,100	1,168	(102)	(68)
Treatment Facilities	23,052	24,262	25,464	(1,210)	(1,202)
Land and Land Improvements	1,690	1,609	1,622	81	(13)
Machinery and Equipment	537	419	409	118	10
Furniture and Fixtures	76	68	6	8	62
Transportation Equipment	723	627	475	96	152
Service Center	1,168	1,303	1,440	(135)	(137)
Construction in Progress	6,887	292	998	6,595	(706)
Total	\$ 64,403	\$ 59,826	\$ 59,901	\$ 4,577	\$ (75)

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

	2016	2015	2014
Additions and Transfers to Capital Assets Being Depreciated (By Department)			
Electric	\$ 1,242	\$ 3,413	\$ 3,864
Water	333	617	1,919
Wastewater Treatment	75	89	48
General Plant	72	69	-
	1,722	4,188	5,831
Additions to Construction in Progress	7,320	2,089	1,634
Transfers from Construction in Progress to Capital Assets Being Depreciated	(725)	(2,795)	(1,173)
Deletions and Transfers	-	-	-
Normal Annual Depreciation	(3,740)	(3,557)	(3,278)
Total	\$ 4,577	\$ (75)	\$ 3,014

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2016 AND 2015
(UNAUDITED)**

Capital Assets (Continued)

Major capital asset transactions for 2016 and 2015 include the following:

	2016	2015
<u>Electric</u>		
Distribution Transformers and Metering Purchased	\$ 259,900	\$ 157,200
Expansion of Distribution Feeder System	336,800	253,600
Distribution System Improvements	314,300	248,500
Other Equipment	20,100	22,100
Digger/Derrick Truck	-	232,200
LED Lighting	10,200	-
Service Trucks	56,900	-
Mapping and OMS Software	68,600	-
Hydroelectric Dam Improvements	59,100	2,445,200
<u>Water</u>		
Purchase of Meters and Valves	26,400	115,600
Distribution System Improvements	111,000	60,600
Water Tower Improvements	-	392,800
Well Improvements	41,300	30,300
Backhoe	110,300	-
Mapping Software	11,200	-
<u>Wastewater</u>		
Lift Station Improvements	-	35,800
Treatment Facility Improvements	59,600	53,300
<u>General Plant</u>		
Compact Track Loader	46,100	-
GIS Equipment	55,800	71,900
Portable Radios	6,700	-
SCADA System Upgrade	55,800	-
Maintenance Software	22,200	-
Service Trucks	44,400	-
Billing Inserter - Capital Lease	-	61,000
Office Equipment	5,400	18,900
<u>Construction in Progress</u>		
RF Metering	72,200	-
Bucket Truck	202,800	-
LED Lighting - CIP Rebates	(22,100)	-
Hydroelectric Dam Apron Repair Project	424,600	230,300
Hydroelectric Dam Electric System Improvements	33,500	-
Water Plant Backup Generator	198,700	-
Airport Extension Water and Lift Station Improvements	6,392,800	-
Service Doors	17,900	-
Purchase of Storage Building	-	61,900
Total	\$ 9,042,500	\$4,491,200

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2016 AND 2015
(UNAUDITED)**

Long-Term Debt

The following table presents the change in the outstanding debt of BPU from 2014 to 2016. The total net long-term debt at December 31, 2016, 2015, and 2014 was \$39.9 million, \$34.6 million, and \$34.6 million, respectively. The Series 2016A Bonds were issued for water and wastewater lift station improvements to the airport. The Series 2016B Equipment Certificates of Indebtedness were issued for purchase of bucket truck for electric department and the backup generator at the water plant. In 2015 the net pension liability of \$2.8 million was recorded and was increased to \$4.2 million in 2016. The capital lease payable is related to acquisition of billing inserter machine in 2015 and vehicles in 2016.

	(In Thousands of Dollars)				
	Balance as of December 31,			Increase (Decrease)	
	2016	2015	2014	2016 to 2015	2015 to 2014
Utility Revenue Bonds					
Series 2007A	\$ 5,385	\$ 6,160	\$ 6,895	\$ (775)	\$ (735)
Series 2014A	5,385	5,745	6,070	(360)	(325)
Series 2015A	1,540	1,700	1,700	(160)	-
Series 2016A	6,008	-	-	6,008	-
Series 2016B (Equip. Certs.)	402	-	-	402	-
G.O. Revenue Notes/Bonds					
Series 2008	217	429	636	(212)	(207)
Series 2009 - Build America	18,247	19,476	20,666	(1,229)	(1,190)
Capital Lease Payable	107	53	-	54	53
Compensated Absences	687	648	699	39	(51)
Net Pension Liability	4,222	2,814	-	1,408	2,814
Revenue Bond Premium	882	313	340	569	(27)
OPEB Obligation	5	17	17	(12)	-
Total Long-Term Debt	43,087	37,355	37,023	5,732	332
Less: Current Portion					
Utility Revenue Bonds					
Series 2007A	800	775	735	25	40
Series 2014A	360	360	325	-	35
Series 2015A	160	160	-	-	160
Series 2016A	254	-	-	254	-
Series 2016B	80	-	-	80	-
G.O. Revenue Notes/Bonds					
Series 2008	217	212	207	5	5
Series 2009 - Build America	1,269	1,229	1,190	40	39
Capital Lease Payable	27	11	-	16	11
Total Current Portion of Long-Term Debt	3,167	2,747	2,457	420	290
Net Long-Term Debt	\$ 39,920	\$ 34,608	\$ 34,566	\$ 5,312	\$ 42

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2016 AND 2015
(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 2016 Operating Budget Analysis and the 2017 Operating Budget approved by the Commission is presented as follows:

	(In Thousands of Dollars)			
	2016 Budget	2016 Actual	Favorable (Unfavorable) Variance	2017 Budget
Utility Operating Revenue	\$ 22,791	\$ 22,885	\$ 94	\$ 23,536
Other Operating Revenue	342	352	10	325
Total Operating Revenue	23,133	23,237	104	23,861
Purchased Power	11,940	12,475	(535)	12,672
Other Operating Expense	6,835	7,100	(265)	7,058
Depreciation and Amortization Expense	3,619	3,752	(133)	3,718
Total Operating Expense	22,394	23,327	(933)	23,448
Operating Income (Loss)	739	(90)	(829)	413
Net Nonoperating Revenue	250	342	92	366
Income Before Operating Transfers to City	989	252	(737)	779
Contributed Capital	-	310	310	-
Operating Transfers to the City	(678)	(681)	(3)	(697)
Change in Net Position	\$ 311	\$ (119)	\$ (430)	\$ 82

Requests for Information

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015**

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CAPITAL ASSETS		
In Service	\$ 94,677,054	\$ 93,092,105
Construction in Progress	6,887,602	292,249
Total Investment in Capital Assets	101,564,656	93,384,354
Less: Accumulated Depreciation	(37,161,383)	(33,557,963)
Net Capital Assets	64,403,273	59,826,391
RESTRICTED ASSETS		
Cash and Investments	5,451,897	4,162,923
Bonds and Notes Receivable	6,154,667	6,635,000
Notes Receivable - Interest	72,500	77,000
Total Restricted Assets	11,679,064	10,874,923
CURRENT ASSETS		
Cash and Investments	6,401,569	7,888,783
Accounts Receivable	2,933,580	2,688,508
Interest Receivable	21,525	23,654
Due from the City of Brainerd	1,552,246	120,156
Inventory	869,366	947,508
Prepaid Expenses	145,269	92,906
Total Current Assets	11,923,555	11,761,515
OTHER ASSETS		
Service Territory Acquisitions, Net of Accumulated Amortization	251,355	260,063
Total Assets	88,257,247	82,722,892
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	1,831,675	501,785
Total Assets and Deferred Outflows of Resources	\$ 90,088,922	\$ 83,224,677

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2016 AND 2015**

	2016	2015
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
NET POSITION		
Net Investment in Capital Assets	\$ 26,743,813	\$ 26,627,660
Restricted for Debt Service	10,113,358	9,293,302
Unrestricted	6,612,392	7,668,149
Total Net Position	43,469,563	43,589,111
LONG-TERM LIABILITIES		
Revenue Bonds Payable	16,743,600	12,310,000
General Obligation Equipment Certificates of Indebtedness	321,467	-
General Obligation Sewer Revenue Notes Payable	-	217,000
General Obligation Build America Bonds Payable	16,978,000	18,247,000
Capital Lease Payable	79,919	41,998
Compensated Absences	687,590	647,836
Net Pension Liability	4,222,142	2,814,108
Revenue Bond Premium	882,101	313,101
Other Postemployment Benefit Obligation	5,509	17,337
Total Long-Term Liabilities	39,920,328	34,608,380
CURRENT LIABILITIES		
Accounts and Contracts Payable	1,856,916	979,362
Electric Utility Revenue Bonds Payable	1,574,200	1,295,000
General Obligation Equipment Certificates of Indebtedness	80,368	-
General Obligation Sewer Revenue Notes Payable	217,000	212,000
General Obligation Build America Bonds Payable	1,269,000	1,229,000
Capital Lease Payable	26,930	10,865
Accrued Expenses		
Salaries and Withholding Taxes	121,077	100,138
Sales Taxes	72,430	64,181
Current Liabilities Payable from Restricted Assets:		
Bond Interest	371,300	290,400
Payable to City of Brainerd	186,012	161,028
Conservation Incentive Program Payable	217,865	290,586
Customer Deposits	277,504	252,748
Total Current Liabilities	6,270,602	4,885,308
Total Liabilities	46,190,930	39,493,688
DEFERRED INFLOWS OF RESOURCES		
Pension Related	428,429	141,878
Total Net Position, Liabilities and Deferred Inflows of Resources	\$ 90,088,922	\$ 83,224,677

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

OPERATING REVENUES	2016	2015
Utility Revenues		
Residential	\$ 7,731,833	\$ 7,681,551
Commercial	8,811,968	8,711,060
Large Commercial	5,133,161	5,085,573
City of Brainerd	432,827	429,349
Internal Use	774,885	746,016
Total Utility Revenues	22,884,674	22,653,549
Other Operating Revenues		
Penalties	155,198	162,178
Other	196,820	228,156
Total Other Operating Revenues	352,018	390,334
Total Operating Revenues	23,236,692	23,043,883
OPERATING EXPENSES		
Generation, Production, and Treatment		
Salaries and Wages	848,262	862,926
Purchased Services	660,294	668,455
Supplies and Maintenance	154,870	128,514
Employee Benefits	472,200	260,697
Other Charges	53,386	52,010
Total Generation, Production, and Treatment Expenses	2,189,012	1,972,602
Purchased Power	12,474,887	11,286,640
Distribution and Collection		
Salaries and Wages	1,276,390	1,227,174
Purchased Services	422,956	485,032
Supplies and Maintenance	211,858	231,900
Employee Benefits	470,182	442,141
Other Charges	39,979	63,290
Total Distribution and Collection Expenses	2,421,365	2,449,537
Administration		
Salaries and Wages	992,369	1,014,737
Purchased Services	439,963	499,232
Supplies and Maintenance	91,625	101,791
Insurance and Bonds	192,027	248,200
Employee Benefits	543,466	444,247
Other Charges	230,615	236,476
Total Administration Expenses	2,490,065	2,544,683
Depreciation and Amortization	3,751,558	3,582,667
Total Operating Expenses	\$ 23,326,887	\$ 21,836,129

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
OPERATING INCOME (LOSS)	\$ (90,195)	\$ 1,207,754
NONOPERATING REVENUE (EXPENSE)		
Interest Income - Investments	120,724	204,234
Interest Income - Notes Receivable	204,735	221,339
Bond Premium	44,260	26,684
Interest Expense	(1,118,421)	(1,195,092)
Local Option Sales Tax	977,969	907,123
Federal Grant Revenue - Build America Bond	138,370	141,217
Bond Issuance Costs	(79,424)	-
Gain on Disposal of Capital Assets	53,661	5,231
Net Nonoperating Revenue	341,874	310,736
INCOME BEFORE OPERATING TRANSFERS	251,679	1,518,490
CONTRIBUTED CAPITAL	310,000	-
TRANSFERS TO THE CITY	(681,227)	(596,543)
CHANGE IN NET POSITION	(119,548)	921,947
Net Position - Beginning	43,589,111	42,667,164
NET POSITION - ENDING	\$ 43,469,563	\$ 43,589,111

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 22,946,825	\$ 23,197,031
Cash Payments to Employees for Services	(3,056,328)	(3,303,350)
Cash Payments to Other Suppliers of Goods or Services	(15,876,533)	(15,011,254)
Net Cash Provided by Operating Activities	4,013,964	4,882,427
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Primary Government	(656,243)	(572,894)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to Utility Plant	(8,032,737)	(3,721,254)
Proceeds from Local Option Sales Tax	979,415	902,629
Principal Paid on Long-Term Debt	(2,736,000)	(2,457,000)
Interest Paid on Long-Term Debt	(1,161,205)	(1,268,501)
Proceeds from Revenue Bonds	6,007,800	1,788,901
Proceeds from Equipment Certificates	401,835	-
Principal Received on Notes Receivable	480,333	465,666
Federal Grant Revenue - Build America Bond	140,770	144,517
Principal Paid on Capital Lease	(21,921)	(7,743)
Proceeds from Sale of Utility Plant	53,661	5,231
Net Cash Used by Capital and Related Financing Activities	(3,888,049)	(4,147,554)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	332,088	425,468
Purchase of Investments	(3,782,939)	(4,803,069)
Redemption of Investments	4,760,547	2,982,122
Net Cash Provided (Used) by Investing Activities	1,309,696	(1,395,479)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	779,368	(1,233,500)
Cash and Cash Equivalents - Beginning	4,100,645	5,334,145
CASH AND CASH EQUIVALENTS - ENDING	\$ 4,880,013	\$ 4,100,645

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (90,195)	\$ 1,207,754
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	3,751,558	3,582,667
Revenue Reduced for Uncollectible Accounts	34,575	44,933
(Increase) Decrease in Assets:		
Accounts Receivable	(250,151)	183,434
Prepaid Expenses	(52,363)	(11,466)
Inventories	78,142	83,719
Increase (Decrease) in Liabilities:		
Accounts Payable	168,554	(95,675)
Accrued Liabilities	53,944	(203,225)
Conservation Incentive Program Payable	(72,721)	(26,288)
Accrued Compensated Absences	39,754	(51,398)
Other Postemployment Benefit Obligation	(11,828)	702
Change in Pension Related Items	364,695	167,270
Net Cash Provided by Operating Activities	\$ 4,013,964	\$ 4,882,427
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and Investments - Current Assets	\$ 6,401,569	\$ 7,888,783
Cash and Investments - Restricted Assets	5,451,897	4,162,923
Cash and Investments - Balance Sheets	11,853,466	12,051,706
Less: Investments not Meeting the Definition of Cash Equivalents	6,973,453	7,951,061
Cash and Cash Equivalents - Ending	\$ 4,880,013	\$ 4,100,645
NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Utility Plant on Account	\$ (724,267)	\$ (16,274)
Net Increase (Decrease) in Fair Value of Investments	(36,608)	45,947
Purchase of Assets on Lease	75,907	60,606

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**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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, 2016 AND 2015**

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, 2016 and 2015 was \$1,118,421 and \$1,195,092, respectively, and the amount capitalized for the same time periods was \$96,500 and \$0, respectively.

Depreciation of capital assets is computed using the straight-line method over the estimated service lives of the various assets as follows:

Land and Land Improvements	10-20 years
Buildings	5-30 years
Distribution Systems	7-50 years
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 negotiable certificates of deposit, 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, 2016 and 2015 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, 2016 AND 2015**

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 except that PERA's fiscal year end is June 30. 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, 2016 AND 2015**

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, 2016 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Electric	\$ 35,990,816	\$ 1,242,205	\$ 18,100	\$ 37,214,921
Water	16,474,418	333,117	58,884	16,748,651
Wastewater Treatment	34,932,550	74,846	28,337	34,979,059
General Plant	5,694,321	71,959	31,857	5,734,423
Construction in Progress	292,249	7,320,411	725,058	6,887,602
	<u>93,384,354</u>	<u>9,042,538</u>	<u>862,236</u>	<u>101,564,656</u>
Accumulated Depreciation	<u>(33,557,963)</u>	<u>(3,740,598)</u>	<u>(137,178)</u>	<u>(37,161,383)</u>
Net Capital Assets	<u>\$ 59,826,391</u>	<u>\$ 5,301,940</u>	<u>\$ 725,058</u>	<u>\$ 64,403,273</u>

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	<u>(31,264,469)</u>	<u>(3,567,740)</u>	<u>(1,274,246)</u>	<u>(33,557,963)</u>
Net Capital Assets	<u>\$ 59,900,837</u>	<u>\$ 2,720,081</u>	<u>\$ 2,794,527</u>	<u>\$ 59,826,391</u>

Capital assets not being depreciated totaled \$1,613,914 and \$1,578,914 at December 31, 2016 and 2015, respectively.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3 RESTRICTED ASSETS

Cash and Investments

At December 31, 2016 and 2015, restricted cash and investments consisted of the following:

	2016	2015
Customer Deposits	\$ 277,504	\$ 252,748
City of Brainerd Contribution	186,012	161,028
Conservation Incentive Program	217,865	290,586
Electric Utility Revenue Bonds Debt Service Reserve	1,563,769	1,596,614
General Obligation Revenue Notes and Bonds Debt Service Reserve	3,206,747	1,861,947
Total Restricted Cash and Investments	\$ 5,451,897	\$ 4,162,923

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, 2016 AND 2015**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

Notes Receivable (Continued)

Note receivable activity for the year ended December 31, 2016, is as follows:

	<u>Note No.1</u>	<u>Note No.2</u>	<u>Total</u>
Beginning Balance	\$ 143,000	\$6,492,000	\$6,635,000
Payments Received	(70,667)	(409,666)	(480,333)
Ending Balance	<u>\$ 72,333</u>	<u>\$6,082,334</u>	<u>\$6,154,667</u>

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>

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, 2016 and 2015 of \$72,500 and \$77,000, respectively, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the years ended December 31, 2016 and 2015 was \$204,735 and \$221,339, respectively.

NOTE 4 DEPOSITS AND INVESTMENTS

Cash and investments are presented at December 31, 2016 and 2015, as follows:

	<u>2016</u>	<u>2015</u>
Restricted Cash and Investments	\$ 5,451,897	\$ 4,162,923
Current Cash and Investments	6,401,569	7,888,783
Total	<u>\$ 11,853,466</u>	<u>\$ 12,051,706</u>

Cash and investments at December 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Petty Cash	\$ 1,500	\$ 1,500
Deposits	4,878,513	4,099,145
Investments	6,973,453	7,951,061
Total	<u>\$ 11,853,466</u>	<u>\$ 12,051,706</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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, 2016, 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, 2016 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, 2016 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, 2016 AND 2015**

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, 2016 by maturity:

Investment Type	Investment Maturities (in Years)			Fair Value	% of Investments
	Less Than 1	1-5	More Than 5		
Negotiable CDs	\$ -	\$ 3,284,931	\$ 958,538	\$ 4,243,469	60.9%
FNMA	-	286,468	1,486,010	1,772,478	25.4%
FHLMC	-	-	957,506	957,506	13.7%
Total	\$ -	\$ 3,571,399	\$ 3,402,054	\$ 6,973,453	100.0%

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, 2016 are as follows:

Investment Type	S & P Rating
Negotiable CDs	NA
FNMA	AA+
FHLMC	AA+

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, 2016, 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.

Fair Value Measurements

BPU uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Measurements (Continued)

BPU follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and required expanded disclosures about fair value measurements. In accordance with this standard, BPU categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

The categorization of financial assets at December 31, 2016 and 2015, consisted of the following:

Type	Level	2016	2015
Negotiable CDs	2	\$ 4,243,469	\$ 3,500,000
FNMA Securities	2	1,772,478	-
FHLMC Securities	2	957,506	599,976
FHLB Securities	2	-	2,786,085
Commercial Paper	2	-	1,065,000
Total Investments		\$ 6,973,453	\$ 7,951,061

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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, 2016 and 2015, BPU owed the City the following:

	2016	2015
Monthly Operating Contribution	\$ 54,942	\$ 48,791
Reimbursement of Other Costs	5,969	-
Wastewater Collection and Storm Sewer Charges	125,101	112,237
Total	\$ 186,012	\$ 161,028

NOTE 6 LONG-TERM DEBT

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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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.

On July 20, 2016, the City of Brainerd, on behalf of BPU, issued \$6,007,800 in Utility Revenue Bonds, Series 2016A, with interest rates from 1.625% to 5.0%, maturing in October 2031, for utility extension to Brainerd Lakes Regional Airport. The water portion is \$4,845,000 and the wastewater lift station portion is \$1,162,800. Also as part of this bond issue, the City's portion related to sewer collection for this project is \$3,682,200. The total amount of the bond is \$9,690,000.

On July 20, 2016, the City of Brainerd, on behalf of BPU, issued \$401,835 in Equipment Certificates of Indebtedness, Series 2016B, with an interest rate of 2.0%, maturing in February 2021, for utility equipment purchased. The electric portion is \$200,917 and the water portion is \$200,918. Also as part of this debt issue, the City's portion related to its equipment purchases is \$673,165. The total amount of the debt issue is \$1,075,000.

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, 2016 was \$1,563,769. The interest payments are made semi-annually on June 1 and December 1, and principal payments on December 1.

General Obligation Sewer Revenue Notes and General Obligation Build America Bonds

The resolutions authorizing the issuance of General Obligation Sewer Revenue Notes and General Obligation Build America Bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. To comply with coverage test, local option sales tax proceeds received equaling 105% of the following year's principal and interest payment is reported as restricted cash and investment. The amount shown as restricted cash and investments as of December 31, 2016 was \$2,363,383. 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, 2016 was \$214,449. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1.

General Obligation Utility Revenue Bonds, Series 2016A

The resolutions authorizing the issuance of 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, 2016 was \$432,804 (Water portion) and \$103,873 (Wastewater portion). The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 LONG-TERM DEBT (CONTINUED)

General Obligation Equipment Certificates of Indebtedness, Series 2016B

The resolutions authorizing the issuance of equipment certificates of indebtedness contain various covenants, reserve fund requirements, and obligations which BPU must comply. The amount shown as restricted cash and investments as of December 31, 2016 was \$46,119 (Electric portion) and \$46,119 (Water portion). The interest payments are made semi-annually on February 1 and August 1, and principal payments on February 1.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Long-term bonds and notes debt consists of the following as of December 31, 2016 and 2015:

Description of Issue	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding	
					December 31,	
					2016	2015
Electric Utility Revenue Bonds, Series 2007A	4.00 - 4.375%	09/01/2007	12/01/2022	\$ 11,140,000	\$ 5,385,000	\$ 6,160,000
G.O. Sewer Revenue Notes, Series 2008	2.23%	02/08/2008	08/20/2017	1,965,098	217,000	429,000
G.O. Build America Bonds, Series 2009	3.233%	05/04/2009	08/20/2028	25,966,788	18,247,000	19,476,000
Electric Utility Revenue Bonds, Series 2014A	2.0 - 4.0%	10/09/2014	12/01/2029	6,070,000	5,385,000	5,745,000
Water Utility Revenue Bonds, Series 2015A	2.25 - 4.0%	12/15/2014	12/01/2025	1,700,000	1,540,000	1,700,000
G.O. Utility Revenue Bonds (Water), Series 2016A	1.625 - 5.0%	07/20/2016	10/01/2031	4,845,000	4,845,000	-
G.O. Utility Revenue Bonds (Sewer), Series 2016A	1.625 - 5.0%	07/20/2016	10/01/2031	1,162,800	1,162,800	-
G.O. Equipment Certificates of Indebtedness (Electric), Series 2016B	2.0%	07/20/2016	02/01/2021	200,917	200,917	-
G.O. Equipment Certificates of Indebtedness (Water), Series 2016B	2.0%	07/20/2016	02/01/2021	200,918	200,918	-
Total Debt				\$ 53,251,521	37,183,635	33,510,000
<u>Less Amount Due Within One Year</u>						
Electric Utility Revenue Bonds, Series 2007A					800,000	775,000
G.O. Sewer Revenue Notes					217,000	212,000
G.O. Build America Bonds					1,269,000	1,229,000
Electric Utility Revenue Bonds, Series 2014A					360,000	360,000
Water Utility Revenue Bonds, Series 2015A					160,000	160,000
G.O. Utility Revenue Bonds (Water), Series 2016A					205,000	-
G.O. Utility Revenue Bonds (Sewer), Series 2016A					49,200	-
G.O. Equipment Certificates of Indebtedness (Electric), Series 2016B					40,184	-
G.O. Equipment Certificates of Indebtedness (Water), Series 2016B					40,184	-
Net Long - Term Debt					\$ 34,043,067	\$ 30,774,000

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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

<u>Electric Utility Revenue Bonds, Series 2007A</u>			
<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	950,000	84,344	1,034,344
2022	1,005,000	43,969	1,048,969
Total	<u>\$ 5,385,000</u>	<u>\$ 838,371</u>	<u>\$ 6,223,371</u>

<u>General Obligation Sewer Revenue Notes</u>			
<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	<u>\$ 217,000</u>	<u>\$ 4,839</u>	<u>\$ 221,839</u>

<u>General Obligation Build America Bonds</u>			
<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,441,000	417,704	1,858,704
2022-2026	7,935,000	1,358,765	9,293,765
2027-2028	3,544,000	173,771	3,717,771
Total	<u>\$ 18,247,000</u>	<u>\$ 4,058,447</u>	<u>\$ 22,305,447</u>

<u>Electric Utility Revenue Bonds, Series 2014A</u>			
<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	385,000	132,445	517,445
2022-2026	2,090,000	468,850	2,558,850
2027-2029	1,430,000	112,350	1,542,350
Total	<u>\$ 5,385,000</u>	<u>\$ 1,355,475</u>	<u>\$ 6,740,475</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Water Utility Revenue Bonds, Series 2015A			
Year Ending December 31,	Principal	Interest	Total
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	170,000	24,313	194,313
2022-2025	715,000	37,567	752,567
Total	\$ 1,540,000	\$ 208,856	\$ 1,748,856

Utility Revenue Bonds, Series 2016A (Water Portion)			
Year Ending December 31,	Principal	Interest	Total
2017	\$ 205,000	\$ 206,753	\$ 411,753
2018	245,000	162,444	407,444
2019	260,000	150,194	410,194
2020	270,000	137,194	407,194
2021	285,000	123,694	408,694
2022-2026	1,660,000	389,469	2,049,469
2027-2031	1,920,000	121,723	2,041,723
Total	\$ 4,845,000	\$ 1,291,471	\$ 6,136,471

Utility Revenue Bonds, Series 2016A (Wastewater Portion)			
Year Ending December 31,	Principal	Interest	Total
2017	\$ 49,200	\$ 49,621	\$ 98,821
2018	58,800	38,987	97,787
2019	62,400	36,047	98,447
2020	64,800	32,926	97,726
2021	68,400	29,686	98,086
2022-2026	398,400	93,472	491,872
2027-2031	460,800	29,214	490,014
Total	\$ 1,162,800	\$ 309,953	\$ 1,472,753

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Equipment Certificates of Indebtedness (Electric Portion) - Series 2016B			
Year Ending December 31,	Principal	Interest	Total
2017	\$ 40,184	\$ 3,740	\$ 43,924
2018	39,249	2,822	42,071
2019	40,183	2,028	42,211
2020	40,183	1,224	41,407
2021	41,118	411	41,529
Total	\$ 200,917	\$ 10,225	\$ 211,142

Equipment Certificates of Indebtedness (Water Portion) - Series 2016B			
Year Ending December 31,	Principal	Interest	Total
2017	\$ 40,184	\$ 3,739	\$ 43,923
2018	39,249	2,822	42,071
2019	40,184	2,028	42,212
2020	40,183	1,224	41,407
2021	41,118	411	41,529
Total	\$ 200,918	\$ 10,224	\$ 211,142

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2016, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Electric Utility Revenue Bonds, Series 2007A	\$ 6,160,000	\$ -	\$ 775,000	\$ 5,385,000
G.O. Revenue Notes	429,000	-	212,000	217,000
G.O. Build America Bonds	19,476,000	-	1,229,000	18,247,000
Electric Utility Revenue Bonds, Series 2014A	5,745,000	-	360,000	5,385,000
Water Utility Revenue Bonds, Series 2015A	1,700,000	-	160,000	1,540,000
Utility Revenue Bonds, Series 2016A	-	6,007,800	-	6,007,800
Equipment Certificates of Indebtedness, Series 2016B	-	401,835	-	401,835
Revenue Bond Premium Series 2014A	211,160	-	15,357	195,803
Series 2015A	101,941	-	11,327	90,614
Series 2016A	-	603,519	16,765	586,754
Series 2016B	-	9,742	812	8,930
Capital Lease Payable	52,863	75,907	21,921	106,849
Compensated Absences	647,836	395,612	355,858	687,590
OPEB Obligation	17,337	-	11,828	5,509
	<u>\$ 34,541,137</u>	<u>\$ 7,494,415</u>	<u>\$ 3,169,868</u>	<u>\$ 38,865,684</u>

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	508,596	559,994	647,836
OPEB Obligation	16,635	702	-	17,337
	<u>\$ 37,022,654</u>	<u>\$ 569,904</u>	<u>\$ 3,051,421</u>	<u>\$ 34,541,137</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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, 2016 and 2015, with related accumulated depreciation of \$152,709 and \$139,430, respectively. Depreciation expense related to this asset for the years ended December 31, 2016 and 2015 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 present value of its future minimum lease payments as of the inception date. The asset cost was \$60,606 with related accumulated depreciation of \$22,222 and \$10,101 at December 31, 2016 and 2015, respectively. Depreciation expense related to this asset for the years ended December 31, 2016 and 2015 was \$12,121 and \$10,101, respectively.

In 2016, BPU entered into a capital lease agreement for financing four vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their present value of their future minimum lease payments as of the inception date. The asset cost for these four vehicles was \$84,812 with related accumulated depreciation of \$9,880 at December 31, 2016. Depreciation expense related to these assets for the year ended December 31, 2016 was \$9,880.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

<u>Year Ended December 31,</u>	
2017	\$ 33,424
2018	33,424
2019	33,424
2020	22,300
2021	5,544
Total Minimum Lease Payments	<u>\$ 128,116</u>
Less: Amount Representing Interest	21,267
Present Value of Minimum Lease Payments	<u><u>\$ 106,849</u></u>

NOTE 8 RISK MANAGEMENT

BPU is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. BPU 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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 8 RISK MANAGEMENT (CONTINUED)

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.

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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 9 PENSION PLANS (CONTINUED)

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 2016 while BPU was required to contribute 7.50%. The BPU's contributions to the GEF for the year ended December 31, 2016 and 2015, were \$244,836 and \$251,138, respectively. BPU's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2016 and 2015, BPU reported a liability of \$4,222,142 and \$2,814,108 for its proportionate share of the GEF's net pension liability. BPU's 2016 net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the BPU totaled \$55,060. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016 BPU's proportion was 0.0520 percent which was a decrease of .0023 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016 and 2015, BPU recognized pension expense of \$610,443 and \$410,345 for its proportionate share of the GEF's pension expense. In addition, BPU recognized an additional \$16,417 as pension expense (and other revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GEF.

At December 31, 2016, BPU reported its proportionate share of the GEF'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	\$ -	\$ 342,987
Changes in Actuarial Assumptions	826,699	-
Difference Between Projected and Actual Investment Earnings	801,381	-
Changes in Proportion	70,462	85,442
Contributions Paid to PERA Subsequent of the Measurement Date	133,133	-
Total	<u>\$ 1,831,675</u>	<u>\$ 428,429</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 9 PENSION PLANS (CONTINUED)

Pension Costs (Continued)

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
Difference Between Projected and Actual Investment Earnings	266,399	-
Changes in Proportion	105,694	-
Contributions Paid to PERA Subsequent of the Measurement Date	129,692	-
Total	<u>\$ 501,785</u>	<u>\$ 141,878</u>

\$133,133 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amounts
2017	\$ 369,181
2018	369,181
2019	379,240
2020	152,511

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF
Inflation	2.50% per Year
Active Member Payroll Growth	3.25% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 9 PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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>	

Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 9 PENSION PLANS (CONTINUED)

Pension Liability Sensitivity

The following presents BPU's proportionate share of the net pension liability at December 31, 2016 and 2015 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	December 31, 2016		
	1% Higher	Current Discount Rate	1% Lower
GERF Discount Rate	6.50%	7.50%	8.50%
BPU's Proportionate Share of the GERF Net Pension Liability	\$ 5,996,693	\$ 4,222,142	\$ 2,760,395

Description	December 31, 2015		
	1% Higher	Current Discount Rate	1% Lower
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.

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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 benefits program. Pursuant to the provisions of the plan, retirees are required to pay 100% of the total premium cost. As of January 1, 2016, 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.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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	693
Adjustment to ARC	(983)
Annual OPEB Cost	<u>54,924</u>
Contributions during the year	<u>66,752</u>
Net OPEB Obligation	(11,828)
Net OPEB - Beginning of the Year	<u>17,337</u>
Net OPEB - End of the Year	<u><u>\$ 5,509</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:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2016	\$ 54,924	\$ 66,752	122%	\$ 5,509
December 31, 2015	\$ 49,810	\$ 49,108	99%	\$ 17,337
December 31, 2014	\$ 54,308	\$ 73,497	135%	\$ 16,635

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 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.

Actuarial Methods and Assumptions (Continued)

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 \$0.004 per kWh based on energy sales to retail electric customers in the previous month.

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

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

NOTE 12 COMMITMENTS

Power Contracts

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

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REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 DECEMBER 31, 2016**

	Fiscal Year Ending June 30,	
	2016	2015
BPU Proportion of the Net Pension Liability	0.0520%	0.0543%
BPU Proportionate Share of the Net Pension Liability	\$ 4,222,142	\$ 2,814,108
State's Proportionate Share of the Net Pension Liability	\$ 55,060	\$ -
Covered - BPU Employee Payroll	\$ 3,224,539	\$ 3,189,264
Proportionate Share of the Net Pension Liability as a % of its Covered - BPU Employee Payroll	130.94%	88.24%
Plan Fiduciary Net Position as a % of the Total Pension Liability	68.91%	78.20%

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 SCHEDULE OF PERA CONTRIBUTIONS
 DECEMBER 31, 2016**

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)
2016	\$ 244,836	\$ 244,836	\$ -	\$ 3,264,478	7.50%
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, 2016**

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, 2016
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CAPITAL ASSETS			
Construction in Progress	\$ 457,112	\$ 258,176	\$ 715,288
In Service	5,287,257	35,007,272	40,294,529
Total Investment in Capital Assets	5,744,369	35,265,448	41,009,817
Less: Accumulated Depreciation	(431,699)	(17,008,821)	(17,440,520)
Net Capital Assets	5,312,670	18,256,627	23,569,297
RESTRICTED ASSETS			
Cash and Investments			
Customer Deposits	-	277,504	277,504
City of Brainerd Contribution	-	60,911	60,911
Conservation Incentive Program	-	217,865	217,865
Debt Service Reserve	514,800	1,095,088	1,609,888
Total Restricted Cash and Investments	514,800	1,651,368	2,166,168
Bonds and Notes Receivable	-	-	-
Notes Receivable - Interest	-	-	-
Total Restricted Assets	514,800	1,651,368	2,166,168
CURRENT ASSETS			
Cash and Investments	185,602	835,473	1,021,075
Accounts Receivable	-	2,238,745	2,238,745
Interest Receivable	-	21,525	21,525
Due from the City of Brainerd	-	30,703	30,703
Inventory	-	758,261	758,261
Prepaid Expenses	65,592	76,969	142,561
Total Current Assets	251,194	3,961,676	4,212,870
OTHER ASSETS			
Service Territory Acquisitions, Net of Accumulated Amortization	-	251,355	251,355
Total Assets	6,078,664	24,121,026	30,199,690
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	194,341	896,239	1,090,580
Total Assets and Deferred Outflows of Resources	\$ 6,273,005	\$ 25,017,265	\$ 31,290,270

WATER	WASTEWATER TREATMENT	TOTALS	
		2016	2015
\$ 5,009,563	\$ 1,162,751	\$ 6,887,602	\$ 292,249
17,929,577	36,452,948	94,677,054	93,092,105
22,939,140	37,615,699	101,564,656	93,384,354
(8,607,534)	(11,113,329)	(37,161,383)	(33,557,963)
14,331,606	26,502,370	64,403,273	59,826,391
-	-	277,504	252,748
-	125,101	186,012	161,028
-	-	217,865	290,586
693,372	2,467,256	4,770,516	3,458,561
693,372	2,592,357	5,451,897	4,162,923
-	6,154,667	6,154,667	6,635,000
-	72,500	72,500	77,000
693,372	8,819,524	11,679,064	10,874,923
1,187,276	4,193,218	6,401,569	7,888,783
308,239	386,596	2,933,580	2,688,508
-	-	21,525	23,654
1,158,631	362,912	1,552,246	120,156
111,105	-	869,366	947,508
-	2,708	145,269	92,906
2,765,251	4,945,434	11,923,555	11,761,515
-	-	251,355	260,063
17,790,229	40,267,328	88,257,247	82,722,892
396,008	345,087	1,831,675	501,785
<u>\$ 18,186,237</u>	<u>\$ 40,612,415</u>	<u>\$ 90,088,922</u>	<u>\$ 83,224,677</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENT OF NET POSITION BY DEPARTMENT (CONTINUED)
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
NET POSITION			
Net Investment in Capital Assets	\$ (282,408)	\$ 13,117,062	\$ 12,834,654
Restricted for Debt Service	499,700	560,863	1,060,563
Unrestricted	(56,747)	943,181	886,434
Total Net Position	<u>160,545</u>	<u>14,621,106</u>	<u>14,781,651</u>
LONG-TERM LIABILITIES			
Revenue Bonds Payable	5,025,000	4,585,000	9,610,000
General Obligation Equipment Certificates of Indebtedness	-	160,733	160,733
General Obligation Sewer Revenue Notes Payable	-	-	-
General Obligation Build America Bonds Payable	-	-	-
Capital Lease Payable	10,942	46,587	57,529
Compensated Absences	59,817	312,382	372,199
Net Pension Liability	327,969	2,185,894	2,513,863
Revenue Bond Premium	195,803	4,465	200,268
Other Postemployment Benefit Obligation	-	3,305	3,305
Total Long-Term Liabilities	<u>5,619,531</u>	<u>7,298,366</u>	<u>12,917,897</u>
CURRENT LIABILITIES			
Accounts and Contracts Payable	57,424	1,327,286	1,384,710
Revenue Bonds Payable	360,000	800,000	1,160,000
General Obligation Equipment Certificates of Indebtedness	-	40,184	40,184
General Obligation Sewer Revenue Notes Payable	-	-	-
General Obligation Build America Bonds Payable	-	-	-
Capital Lease Payable	3,333	15,721	19,054
Accrued Expenses			
Salaries and Withholding Taxes	11,611	57,070	68,681
Sales Taxes	4	70,422	70,426
Current Liabilities Payable from Restricted Assets:			
Bond Interest	15,100	21,200	36,300
Payable to City of Brainerd	-	60,911	60,911
Conservation Incentive Program Payable	-	217,865	217,865
Customer Deposits	-	277,504	277,504
Total Current Liabilities	<u>447,472</u>	<u>2,888,163</u>	<u>3,335,635</u>
Total Liabilities	<u>6,067,003</u>	<u>10,186,529</u>	<u>16,253,532</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	<u>45,457</u>	<u>209,630</u>	<u>255,087</u>
Total Net Position, Liabilities and Deferred Inflows of Resources	<u>\$ 6,273,005</u>	<u>\$ 25,017,265</u>	<u>\$ 31,290,270</u>

WATER	WASTEWATER TREATMENT	TOTALS	
		2016	2015
\$ 7,162,287	\$ 6,746,872	\$ 26,743,813	\$ 26,627,660
594,472	8,458,323	10,113,358	9,293,302
1,595,728	4,130,230	6,612,392	7,668,149
<u>9,352,487</u>	<u>19,335,425</u>	<u>43,469,563</u>	<u>43,589,111</u>
6,020,000	1,113,600	16,743,600	12,310,000
160,734	-	321,467	-
-	-	-	217,000
-	16,978,000	16,978,000	18,247,000
11,195	11,195	79,919	41,998
157,083	158,308	687,590	647,836
912,827	795,452	4,222,142	2,814,108
568,268	113,565	882,101	313,101
1,102	1,102	5,509	17,337
<u>7,831,209</u>	<u>19,171,222</u>	<u>39,920,328</u>	<u>34,608,380</u>
372,047	100,159	1,856,916	979,362
365,000	49,200	1,574,200	1,295,000
40,184	-	80,368	-
-	217,000	217,000	212,000
-	1,269,000	1,269,000	1,229,000
3,938	3,938	26,930	10,865
27,842	24,554	121,077	100,138
2,004	-	72,430	64,181
98,900	236,100	371,300	290,400
-	125,101	186,012	161,028
-	-	217,865	290,586
-	-	277,504	252,748
<u>909,915</u>	<u>2,025,052</u>	<u>6,270,602</u>	<u>4,885,308</u>
8,741,124	21,196,274	46,190,930	39,493,688
92,626	80,716	428,429	141,878
<u>\$ 18,186,237</u>	<u>\$ 40,612,415</u>	<u>\$ 90,088,922</u>	<u>\$ 83,224,677</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2015)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
OPERATING REVENUES			
Utility Revenues			
Residential	\$ -	\$ 5,313,217	\$ 5,313,217
Commercial	-	6,671,496	6,671,496
Large Commercial	-	5,133,161	5,133,161
City of Brainerd	-	332,297	332,297
Internal Use	-	709,189	709,189
Total Utility Revenues	-	18,159,360	18,159,360
Other Operating Revenues			
Penalties	-	108,899	108,899
Other	2,298	156,855	159,153
Total Other Operating Revenues	2,298	265,754	268,052
Total Operating Revenues	2,298	18,425,114	18,427,412
OPERATING EXPENSES			
Generation, Production, and Treatment			
Salaries and Wages	325,795	-	325,795
Purchased Services	9,612	-	9,612
Supplies and Maintenance	42,515	-	42,515
Employee Benefits	241,302	-	241,302
Other Charges	25,790	-	25,790
Total Generation, Production, and Treatment Expenses	645,014	-	645,014
Purchased Power	(1,483,450)	13,958,337	12,474,887
Distribution and Collection			
Salaries and Wages	-	905,475	905,475
Purchased Services	-	179,356	179,356
Supplies and Maintenance	-	150,025	150,025
Employee Benefits	-	315,467	315,467
Other Charges	-	29,559	29,559
Total Distribution and Collection Expenses	-	1,579,882	1,579,882

WATER	WASTEWATER TREATMENT	TOTALS	
		2016	2015
\$ 1,108,865	\$ 1,309,751	\$ 7,731,833	\$ 7,681,551
990,549	1,149,923	8,811,968	8,711,060
-	-	5,133,161	5,085,573
89,499	11,031	432,827	429,349
65,253	443	774,885	746,016
<u>2,254,166</u>	<u>2,471,148</u>	<u>22,884,674</u>	<u>22,653,549</u>
19,155	27,144	155,198	162,178
25,806	11,861	196,820	228,156
<u>44,961</u>	<u>39,005</u>	<u>352,018</u>	<u>390,334</u>
2,299,127	2,510,153	23,236,692	23,043,883
205,237	317,230	848,262	862,926
106,313	544,369	660,294	668,455
47,661	64,694	154,870	128,514
99,546	131,352	472,200	260,697
530	27,066	53,386	52,010
<u>459,287</u>	<u>1,084,711</u>	<u>2,189,012</u>	<u>1,972,602</u>
-	-	12,474,887	11,286,640
265,561	105,354	1,276,390	1,227,174
135,016	108,584	422,956	485,032
47,849	13,984	211,858	231,900
106,641	48,074	470,182	442,141
10,326	94	39,979	63,290
<u>565,393</u>	<u>276,090</u>	<u>2,421,365</u>	<u>2,449,537</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, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2015)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
OPERATING EXPENSES (CONTINUED)			
Administration			
Salaries and Wages	\$ 36,364	\$ 538,953	\$ 575,317
Purchased Services	96,741	226,612	323,353
Supplies and Maintenance	5,238	54,815	60,053
Insurance and Bonds	46,223	54,601	100,824
Employee Benefits	28,395	269,962	298,357
Other Charges	9,464	156,537	166,001
Total Administration Expenses	<u>222,425</u>	<u>1,301,480</u>	<u>1,523,905</u>
Depreciation and Amortization	<u>206,889</u>	<u>1,440,354</u>	<u>1,647,243</u>
Total Operating Expenses	<u>(409,122)</u>	<u>18,280,053</u>	<u>17,870,931</u>
OPERATING INCOME (LOSS)	411,420	145,061	556,481
NONOPERATING REVENUE (EXPENSE)			
Interest Income - Investments	-	71,166	71,166
Interest Income - Notes Receivable	-	-	-
Bond Premium	15,357	406	15,763
Interest Expense	(186,745)	(257,438)	(444,183)
Local Option Sales Tax	-	-	-
Federal Grant Revenue - Build America Bond	-	-	-
Bond Issuance Costs	-	(5,708)	(5,708)
Gain (Loss) on Disposal of Capital Assets	-	30,653	30,653
Net Nonoperating Revenue (Expense)	<u>(171,388)</u>	<u>(160,921)</u>	<u>(332,309)</u>
INCOME (LOSS) BEFORE TRANSFERS	240,032	(15,860)	224,172
CONTRIBUTED CAPITAL	-	-	-
TRANSFERS TO THE CITY	<u>-</u>	<u>(681,227)</u>	<u>(681,227)</u>
CHANGE IN NET POSITION	<u>\$ 240,032</u>	<u>\$ (697,087)</u>	<u>\$ (457,055)</u>

WATER	WASTEWATER TREATMENT	TOTALS	
		2016	2015
\$ 214,669	\$ 202,383	\$ 992,369	\$ 1,014,737
63,698	52,912	439,963	499,232
18,501	13,071	91,625	101,791
45,741	45,462	192,027	248,200
127,663	117,446	543,466	444,247
30,392	34,222	230,615	236,476
<u>500,664</u>	<u>465,496</u>	<u>2,490,065</u>	<u>2,544,683</u>
701,941	1,402,374	3,751,558	3,582,667
<u>2,227,285</u>	<u>3,228,671</u>	<u>23,326,887</u>	<u>21,836,129</u>
71,842	(718,518)	(90,195)	1,207,754
1,621	47,937	120,724	204,234
-	204,735	204,735	221,339
25,252	3,245	44,260	26,684
(48,712)	(625,526)	(1,118,421)	(1,195,092)
-	977,969	977,969	907,123
-	138,370	138,370	141,217
(60,555)	(13,161)	(79,424)	-
23,008	-	53,661	5,231
<u>(59,386)</u>	<u>733,569</u>	<u>341,874</u>	<u>310,736</u>
12,456	15,051	251,679	1,518,490
250,000	60,000	310,000	-
-	-	(681,227)	(596,543)
<u>\$ 262,456</u>	<u>\$ 75,051</u>	<u>\$ (119,548)</u>	<u>\$ 921,947</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Cost			
	12/31/2015	Additions	Retirements	12/31/2016
Electric Department				
<u>Generation</u>				
Land and Land Improvements	\$ 276,000	\$ 38,739	\$ -	\$ 314,739
Generation Facilities	4,908,329	20,390	-	4,928,719
Transportation Equipment	-	16,666	-	16,666
Total Generation	<u>5,184,329</u>	<u>75,795</u>	<u>-</u>	<u>5,260,124</u>
<u>Distribution</u>				
Land and Land Improvements	186,028	61,907	-	247,935
Distribution System	28,041,887	911,026	-	28,952,913
Street and Security Lighting System	569,136	10,238	-	579,374
Machinery and Equipment	746,070	143,013	18,100	870,983
Transportation Equipment	1,263,366	40,226	-	1,303,592
Total Distribution	<u>30,806,487</u>	<u>1,166,410</u>	<u>18,100</u>	<u>31,954,797</u>
Total Electric Department	<u>35,990,816</u>	<u>1,242,205</u>	<u>18,100</u>	<u>37,214,921</u>
Water Department				
<u>Production</u>				
Structures and Improvements	1,646,237	-	-	1,646,237
Wells, Pumps and Accessories	439,485	41,256	-	480,741
Water Treatment Plant Equipment	1,765,971	31,005	-	1,796,976
Total Production	<u>3,851,693</u>	<u>72,261</u>	<u>-</u>	<u>3,923,954</u>
<u>Distribution</u>				
Distribution System	12,062,080	99,818	-	12,161,898
Machinery and Equipment	261,910	50,758	12,066	300,602
Transportation Equipment	298,735	110,280	46,818	362,197
Total Water Distribution	<u>12,622,725</u>	<u>260,856</u>	<u>58,884</u>	<u>12,824,697</u>
Total Water Department	<u>16,474,418</u>	<u>333,117</u>	<u>58,884</u>	<u>16,748,651</u>
Wastewater Treatment Department				
Land and Land Improvements	35,485	-	-	35,485
Collection System	3,830,784	-	-	3,830,784
Treatment Facility	30,588,997	59,561	-	30,648,558
Machinery and Equipment	353,169	15,285	-	368,454
Transportation Equipment	124,115	-	28,337	95,778
Total Wastewater Treatment Department	<u>34,932,550</u>	<u>74,846</u>	<u>28,337</u>	<u>34,979,059</u>
General Plant				
Land and Land Improvements	1,452,904	-	-	1,452,904
Service Center	3,603,696	-	-	3,603,696
Furniture and Fixtures	390,850	27,601	-	418,451
Transportation Equipment	181,071	44,358	31,857	193,572
Storage Building	65,800	-	-	65,800
Total General Plant	<u>5,694,321</u>	<u>71,959</u>	<u>31,857</u>	<u>5,734,423</u>
Total Capital Assets in Service	93,092,105	1,722,127	137,178	94,677,054
Construction Work in Progress	<u>292,249</u>	<u>7,320,411</u>	<u>725,058</u>	<u>6,887,602</u>
Total Investment in Capital Assets	<u>\$ 93,384,354</u>	<u>\$ 9,042,538</u>	<u>\$ 862,236</u>	<u>\$ 101,564,656</u>

Composite Depreciation Rates	Accumulated Depreciation				Percent of Asset Balance
	12/31/2015	Additions	Retirements	12/31/2016	
0.0%	\$ -	\$ 1,937	\$ -	\$ 1,937	0.0%
-	224,495	199,686	-	424,181	0.0%
13.3%	-	2,222	-	2,222	13.3%
3.9%	224,495	203,845	-	428,340	8.1%
2.2%	-	5,381	-	5,381	0.0%
4.0%	11,964,942	1,150,451	-	13,115,393	45.3%
4.4%	294,556	25,295	-	319,851	55.2%
6.8%	496,280	59,282	18,100	537,462	61.7%
5.7%	794,267	74,437	-	868,704	66.6%
4.1%	13,550,045	1,314,846	18,100	14,846,791	46.5%
	13,774,540	1,518,691	18,100	15,275,131	
1.1%	1,561,852	17,408	-	1,579,260	95.9%
9.3%	65,506	44,684	-	110,190	22.9%
5.9%	618,893	105,879	-	724,772	40.3%
4.3%	2,246,251	167,971	-	2,414,222	61.5%
3.7%	4,556,881	445,547	-	5,002,428	41.1%
6.4%	161,857	19,149	12,066	168,940	56.2%
6.6%	199,815	23,858	46,818	176,855	48.8%
3.8%	4,918,553	488,554	58,884	5,348,223	41.7%
3.9%	7,164,804	656,525	58,884	7,762,445	46.3%
0.0%	-	-	-	-	0.0%
2.6%	2,731,067	101,360	-	2,832,427	73.9%
4.1%	6,327,306	1,269,226	-	7,596,532	24.8%
3.3%	284,425	12,021	-	296,446	80.5%
0.0%	124,115	-	28,337	95,778	100.0%
4.0%	9,466,913	1,382,607	28,337	10,821,183	30.9%
0.9%	341,396	12,551	-	353,947	24.4%
3.7%	2,305,553	132,674	-	2,438,227	67.7%
4.8%	322,775	20,115	-	342,890	81.9%
7.3%	122,488	14,145	31,857	104,776	54.1%
5.0%	59,494	3,290	-	62,784	95.4%
3.2%	3,151,706	182,775	31,857	3,302,624	57.6%
4.0%	33,557,963	3,740,598	137,178	37,161,383	39.3%
	-	-	-	-	
3.7%	<u>\$ 33,557,963</u>	<u>\$ 3,740,598</u>	<u>\$ 137,178</u>	<u>\$ 37,161,383</u>	36.6%

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OTHER INFORMATION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ELECTRIC DISTRIBUTION DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
(UNAUDITED)**

	2007	2008	2009	2010	2011	2012
Electric Capital Assets						
In Service (Thousands)	\$ 20,851	\$ 25,166	\$ 28,142	\$ 29,559	\$ 29,876	\$ 30,874
Investment Per Meter	\$ 2,698	\$ 3,228	\$ 3,607	\$ 3,778	\$ 3,825	\$ 3,948
Investment Per Dollar of Electric Revenue	\$ 1.22	\$ 1.45	\$ 1.75	\$ 1.79	\$ 1.70	\$ 1.71
Accumulated Depreciation (Thousands)						
Percent of Capital Assets	49.1%	37.4%	37.0%	38.5%	39.3%	40.7%
Annual Depreciation (Thousands)	\$ 851	\$ 884	\$ 1,086	\$ 1,137	\$ 1,191	\$ 1,199
Percent of Annual Depreciation to Average Capital Assets in Service	4.2%	3.8%	4.1%	3.9%	4.0%	4.0%
Number of Meters (Year-End)	7,728	7,796	7,801	7,824	7,810	7,820
Cost of Power						
KWH Purchased (Thousands)	262,543	256,066	230,564	239,580	242,241	247,092
KWH Generated	-	-	-	-	-	-
Total Cost (Thousands)	\$ 12,112	\$ 11,588	\$ 11,753	\$ 12,873	\$ 14,488	\$ 14,498
Cost Per KWH Purchased (Cents)	4.61	4.53	5.10	5.37	5.98	5.87
Percent of System Loss	4.8%	5.6%	4.2%	3.7%	3.3%	2.7%
Average Load Factor for Year	71.4%	72.0%	70.2%	70.3%	71.0%	72.4%
Electric Revenue						
KWH Sold (Thousands)	249,974	241,640	221,000	230,756	234,226	240,530
Electric Utility Revenue (Thousands)	\$ 17,149	\$ 17,307	\$ 16,079	\$ 16,485	\$ 17,559	\$ 18,054
Per KWH Sold (Cents)	6.86	7.16	7.28	7.14	7.50	7.51
Gross Margin Per KWH (Cents)	2.25	2.63	2.18	1.77	1.52	1.64
Operating Income (Loss) (Thousands)	\$ 1,989	\$ 2,417	\$ 874	\$ 180	\$ (459)	\$ 223
Change in Net Position (Thousands)	\$ 1,579	\$ 1,703	\$ 45	\$ (882)	\$ (1,217)	\$ (772)

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

2013	2014	2015	2016
\$ 32,385	\$ 36,146	\$ 39,034	\$ 40,295
\$ 4,120	\$ 4,558	\$ 4,912	\$ 5,046
\$ 1.91	\$ 2.01	\$ 2.15	\$ 2.22
\$ 13,651	\$ 14,892	\$ 15,838	\$ 17,441
42.2%	41.2%	40.6%	43.3%
\$ 1,238	\$ 1,344	\$ 1,520	\$ 1,636
3.9%	3.9%	4.0%	4.1%
7,861	7,931	7,946	7,986
202,882	186,738	167,978	166,984
-	5,601	18,554	20,116
\$ 12,881	\$ 12,270	\$ 11,287	\$ 12,475
6.35	6.60	6.72	7.47
2.1%	3.6%	3.4%	3.6%
67.6%	69.9%	66.8%	66.5%
198,534	185,427	180,256	180,334
\$ 16,973	\$ 18,009	\$ 18,119	\$ 18,159
8.56	9.71	10.05	10.07
2.21	3.11	3.33	2.60
\$ 556	\$ 1,653	\$ 1,666	\$ 556
\$ (400)	\$ 621	\$ 707	\$ (457)

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WATER DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
(UNAUDITED)**

	2007	2008	2009	2010	2011	2012
Water Capital Assets						
In Service (Thousands)	\$ 13,817	\$ 14,963	\$ 15,464	\$ 15,384	\$ 15,524	\$ 15,814
Investment Per Meter	\$ 2,962	\$ 3,244	\$ 3,355	\$ 3,326	\$ 3,359	\$ 3,407
Investment Per Dollar of Water Revenue	\$ 7.65	\$ 9.30	\$ 9.88	\$ 8.92	\$ 8.86	\$ 8.03
Accumulated Depreciation (Thousands)	\$ 5,950	\$ 6,229	\$ 6,623	\$ 6,476	\$ 6,866	\$ 7,349
Percent of Capital Assets	43.1%	41.6%	42.8%	42.1%	44.2%	46.5%
Annual Depreciation (Thousands)	\$ 465	\$ 471	\$ 470	\$ 489	\$ 493	\$ 483
Percent of Annual Depreciation to Average Capital Assets in Service	3.5%	3.3%	3.1%	3.2%	3.2%	3.1%
Number of Meters (Year-End)	4,664	4,613	4,609	4,626	4,621	4,642
Cost of Water Production						
Gallons Pumped into Distribution System (Thousands)	750,756	540,542	568,687	514,258	500,195	497,183
Total Cost (Thousands)	\$ 419	\$ 432	\$ 435	\$ 410	\$ 466	\$ 477
Cost Per Thousand Gallons Pumped	\$ 0.55	\$ 0.80	\$ 0.76	\$ 0.80	\$ 0.93	\$ 0.96
Percent of System Loss	9.7%	10.5%	20.9%	12.2%	12.9%	11.8%
Water Revenue						
Gallons Sold (Thousands)	678,254	483,738	449,823	451,584	435,473	438,609
Water Utility Revenue (Thousands)	\$ 1,806	\$ 1,609	\$ 1,565	\$ 1,725	\$ 1,752	\$ 1,969
Per Thousand Gallons Sold	\$ 2.66	\$ 3.33	\$ 3.48	\$ 3.82	\$ 4.02	\$ 4.49
Gross Margin Per Thousand Gallons Sold	\$ 2.11	\$ 2.53	\$ 2.72	\$ 3.02	\$ 3.09	\$ 3.53
Operating Income (Loss) (Thousands)	\$ 168	\$ (120)	\$ (172)	\$ (34)	\$ (66)	\$ 183
Change in Net Position (Thousands) Before Capital Contributions from City	\$ (15)	\$ 186	\$ (112)	\$ (171)	\$ (34)	\$ 184

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

2013	2014	2015	2016
\$ 16,153	\$ 17,653	\$ 17,655	\$ 17,930
\$ 3,473	\$ 3,814	\$ 3,797	\$ 3,835
\$ 7.62	\$ 8.60	\$ 8.11	\$ 7.95
\$ 7,815	\$ 7,949	\$ 7,974	\$ 8,608
48.4%	45.0%	45.2%	48.0%
\$ 493	\$ 553	\$ 656	\$ 702
3.1%	3.3%	3.7%	4.0%
4,651	4,629	4,650	4,675
507,118	500,441	506,271	492,846
\$ 478	\$ 481	\$ 442	\$ 459
\$ 0.94	\$ 0.96	\$ 0.87	\$ 0.93
14.7%	16.3%	18.7%	18.8%
432,521	418,668	411,825	400,226
\$ 2,119	\$ 2,053	\$ 2,177	\$ 2,254
\$ 4.90	\$ 4.90	\$ 5.29	\$ 5.63
\$ 3.96	\$ 3.94	\$ 4.42	\$ 4.70
\$ 304	\$ 171	\$ 184	\$ 72
\$ 299	\$ 143	\$ 153	\$ 12

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WASTEWATER TREATMENT DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
(UNAUDITED)**

	2007	2008	2009	2010	2011	2012
Wastewater Treatment Capital Assets						
In Service (Thousands)	\$ 13,223	\$ 13,501	\$ 14,299	\$ 26,975	\$ 35,931	\$ 36,329
Investment Per Account	\$ 2,867	\$ 2,958	\$ 3,134	\$ 5,901	\$ 7,862	\$ 7,908
Investment Per Dollar of Wastewater Treatment Revenue	\$ 7.90	\$ 6.55	\$ 6.76	\$ 12.34	\$ 15.91	\$ 15.77
Accumulated Depreciation (Thousands)	\$ 8,559	\$ 9,076	\$ 10,023	\$ 5,402	\$ 4,401	\$ 5,708
Percent of Capital Assets	64.7%	67.2%	70.1%	20.0%	12.2%	15.7%
Annual Depreciation (Thousands)	\$ 770	\$ 763	\$ 1,056	\$ 986	\$ 1,644	\$ 1,374
Percent of Annual Depreciation to Average Capital Assets in Service	5.8%	5.7%	7.6%	4.8%	5.2%	3.8%
Number of Accounts (Year-End)	4,612	4,564	4,562	4,571	4,570	4,594
Cost of Wastewater Treatment						
Flow in Gallons Processed (Thousands)	751,025	762,208	765,652	675,928	723,764	725,787
Total Treatment Cost (Thousands)	\$ 505	\$ 506	\$ 567	\$ 638	\$ 1,016	\$ 975
Cost Per Thousand Gallons Processed	\$ 0.67	\$ 0.66	\$ 0.74	\$ 0.94	\$ 1.40	\$ 1.34
Percent of System Loss	17.2%	15.7%	16.1%	16.1%	24.7%	24.6%
Wastewater Treatment Revenue						
Flow in Gallons Sold (Thousands)	621,604	642,762	642,413	567,138	545,138	547,053
Wastewater Treatment Utility Revenue (Thousands)	\$ 1,673	\$ 2,062	\$ 2,115	\$ 2,186	\$ 2,258	\$ 2,304
Per Thousand Gallons Sold	\$ 2.69	\$ 3.21	\$ 3.29	\$ 3.85	\$ 4.14	\$ 4.21
Gross Margin Per Thousand Gallons Sold	\$ 2.02	\$ 2.55	\$ 2.55	\$ 2.91	\$ 2.74	\$ 2.87
Operating Income (Loss) (Thousands)	\$ (271)	\$ 95	\$ (142)	\$ (101)	\$ (1,079)	\$ (706)
Change in Net Position (Thousands)	\$ 300	\$ 927	\$ 657	\$ 840	\$ (402)	\$ (2)

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

2013	2014	2015	2016
\$ 36,325	\$ 36,368	\$ 36,403	\$ 36,453
\$ 7,892	\$ 7,937	\$ 7,914	\$ 7,882
\$ 15.93	\$ 15.78	\$ 15.44	\$ 14.75
\$ 7,046	\$ 8,424	\$ 9,746	\$ 11,113
19.4%	23.2%	26.8%	30.5%
\$ 1,384	\$ 1,382	\$ 1,392	\$ 1,402
3.8%	3.8%	3.8%	3.9%
4,603	4,582	4,600	4,625
677,322	799,681	700,235	764,803
\$ 1,082	\$ 1,106	\$ 1,001	\$ 1,084
\$ 1.60	\$ 1.38	\$ 1.43	\$ 1.42
19.7%	30.7%	22.7%	28.7%
544,183	554,578	541,213	545,513
\$ 2,281	\$ 2,304	\$ 2,357	\$ 2,471
\$ 4.19	\$ 4.15	\$ 4.36	\$ 4.53
\$ 2.59	\$ 2.77	\$ 2.93	\$ 3.11
\$ (843)	\$ (831)	\$ (642)	\$ (719)
\$ (482)	\$ 2	\$ 61	\$ 15

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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**

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, 2016, 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 17, 2017.

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 17, 2017

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, 2016, 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 17, 2017.

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. BPU does not have any tax increment financing districts and therefore this compliance was not tested.

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 17, 2017