

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA**

**FINANCIAL REPORT**

**DECEMBER 31, 2013 AND 2012**

**BRAINERD PUBLIC UTILITIES  
TABLE OF CONTENTS  
DECEMBER 31, 2013 AND 2012**

**INTRODUCTORY SECTION**

Organizational Data ..... 1

**FINANCIAL SECTION**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**SUPPLEMENTARY INFORMATION**

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

**OTHER INFORMATION**

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

**OTHER REPORTS SECTION**

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

## INTRODUCTORY SECTION

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
ORGANIZATIONAL DATA  
DECEMBER 31, 2013**

**COMMISSION**

		<u>Term Expires December 31,</u>
President	William Wroolie	2016
Vice President	Don Samuelson	2013
Commission Member	Don Sievek	2014
Commission Member	Lucy Nesheim	2017
Commission Member	Mark O'Day	2015

**ADMINISTRATION**

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

## FINANCIAL SECTION

## 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, 2013 and 2012, 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 Brainerd Public Utilities as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Brainerd Public Utilities' basic financial statements. The departmental combining financial statements and the schedule of utility plant and accumulated depreciation are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The departmental combining financial statements and the schedule of utility plan and accumulated depreciation are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### *Other Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2014, on our consideration of Brainerd Public Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Brainerd Public Utilities' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Clifton Larson Allen LLP". The signature is written in a cursive, flowing style.

**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 16, 2014



**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2013 AND 2012  
(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, 2013 and 2012. This discussion and analysis should be read in conjunction with BPU's financial statements and accompanying notes, which follow this section.

**Financial Highlights**

- Assets of BPU exceeded its liabilities at the close of December 31, 2013 by \$44,188,819 (net position) which is a decrease of \$583,051 or 1.3% from 2012 to 2013. Of this amount, \$7,309,948 is unrestricted net position that may be used to meet BPU's ongoing obligations to customers and creditors.
- Total assets decreased by \$3,098,173 or 3.8% from 2012 to 2013. Cash and investments decreased by \$1,963,501 or 18.1% and accumulated depreciation of capital assets exceeded the additions to capital assets by \$588,750 from 2012 to 2013.
- Total liabilities decreased by \$2,515,122 or 7.0% from 2012 to 2013. Revenue bonds and notes payable decreased by \$1,990,000 or 6.2% from 2012 to 2013.
- Unrestricted net position decreased by \$1,236,417 or 14.5% from 2012 to 2013.
- Total operating revenue decreased \$989,633 or 4.4%, from the prior year.
- Total operating expenses decreased \$1,306,178 or 5.7%, from the prior year.

**Overview of the Financial Statements**

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

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

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

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

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2013 AND 2012  
(UNAUDITED)**

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

The *Statements of Revenues, Expenses and Changes in Net Position* present information showing how BPU's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The increase or decrease in net position may serve as an indicator of the effect of BPU's current year operations on its financial position.

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

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Financial Analysis**

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

Net capital assets represent 73.3% and 71.2% of total assets as of December 31, 2013 and 2012, respectively. Long-term liabilities represent 37.2% and 38.4% of total liabilities and net position as of December 31, 2013 and 2012, respectively. Total net position decreased 1.3% and 1.3% as of December 31, 2013 and 2012, respectively.

The largest portion of BPU's net position (61.9%), at December 31, 2013, 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 2013, \$9,525,527 (21.6%) of BPU's net position represents resources that are restricted. The remaining balance of unrestricted net position of \$7,309,948 (16.5%) may be used to meet BPU ongoing obligations.

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2013 AND 2012  
(UNAUDITED)**

**Financial Analysis (Continued)**

**Condensed Statements of Net Position**

	December 31,			Change	
	2013	2012	2011	2013 to 2012	2012 to 2011
Net Capital Assets	\$ 56,887,297	\$ 57,476,047	\$ 58,321,572	\$ (588,750)	\$ (845,525)
Restricted Assets	11,141,358	11,938,181	12,116,621	(796,823)	(178,440)
Current Assets	9,257,359	11,104,966	12,367,612	(1,847,607)	(1,262,646)
Other Assets	293,096	158,089	179,492	135,007	(21,403)
<b>Total Assets</b>	<b>\$ 77,579,110</b>	<b>\$ 80,677,283</b>	<b>\$ 82,985,297</b>	<b>\$ (3,098,173)</b>	<b>\$ (2,308,014)</b>
Current Liabilities	\$ 4,543,642	\$ 4,940,321	\$ 4,710,281	\$ (396,679)	\$ 230,040
Long-Term Liabilities	28,846,649	30,965,092	32,913,380	(2,118,443)	(1,948,288)
<b>Total Liabilities</b>	<b>33,390,291</b>	<b>35,905,413</b>	<b>37,623,661</b>	<b>(2,515,122)</b>	<b>(1,718,248)</b>
Net Investment in Capital Assets	27,353,344	26,016,402	24,972,851	1,336,942	1,043,551
Restricted Net Position	9,525,527	10,209,103	10,478,395	(683,576)	(269,292)
Unrestricted Net Position	7,309,948	8,546,365	9,910,390	(1,236,417)	(1,364,025)
<b>Total Net Position</b>	<b>44,188,819</b>	<b>44,771,870</b>	<b>45,361,636</b>	<b>(583,051)</b>	<b>(589,766)</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 77,579,110</b>	<b>\$ 80,677,283</b>	<b>\$ 82,985,297</b>	<b>\$ (3,098,173)</b>	<b>\$ (2,308,014)</b>

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

**2013**

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

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

Net nonoperating revenue for 2013 decreased \$372,708 from prior year. Of this amount, interest income from investments decreased approximately \$337,200 which was primarily due to decrease in fair value of investments of approximately \$305,000 at year end. Interest income on notes receivable with City of Baxter related to the expansion of the wastewater treatment facility decreased approximately \$14,400, interest expense on debt service decreased approximately \$69,200, local option sales tax proceeds decreased approximately \$4,900, federal grant revenue decreased approximately \$16,800, gains on disposal of capital assets decreased approximately \$68,600.

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2013 AND 2012  
(UNAUDITED)**

**Financial Analysis (Continued)**

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

**2012**

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

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

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

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2013 AND 2012  
(UNAUDITED)**

**Financial Analysis (Continued)**

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

	For the Year Ended December 31,			Change	
	2013	2012	2011	2013 to 2012	2012 to 2011
<b>OPERATING REVENUES</b>					
Electric	\$ 17,268,859	\$ 18,378,000	\$ 17,829,513	\$ (1,109,141)	\$ 548,487
Water	2,161,260	2,020,325	1,778,832	140,935	241,493
Wastewater Treatment	2,312,367	2,333,794	2,321,978	(21,427)	11,816
Total Operating Revenue	21,742,486	22,732,119	21,930,323	(989,633)	801,796
<b>OPERATING EXPENSES</b>					
Production and Treatment	1,559,671	1,451,257	1,482,611	108,414	(31,354)
Purchased Power	12,880,626	14,498,072	14,488,488	(1,617,446)	9,584
Distribution and Collection	2,068,049	2,029,558	2,216,504	38,491	(186,946)
Administration	1,953,287	1,996,673	1,996,685	(43,386)	(12)
Depreciation and Amortization	3,263,906	3,056,157	3,351,258	207,749	(295,101)
Total Operating Expenses	21,725,539	23,031,717	23,535,546	(1,306,178)	(503,829)
<b>OPERATING INCOME</b>	16,947	(299,598)	(1,605,223)	316,545	1,305,625
<b>NONOPERATING REVENUE (EXPENSE)</b>					
Interest Income - Investments	(124,009)	213,155	428,736	(337,164)	(215,581)
Interest Income - Notes Receivable	249,849	264,284	274,144	(14,435)	(9,860)
Interest Expense	(1,090,384)	(1,159,579)	(1,213,757)	69,195	54,178
Local Option Sales Tax	875,642	880,526	835,200	(4,884)	45,326
Federal Grant Revenue -					
Build America Bond	162,428	177,883	185,876	(15,455)	(7,993)
Other Grants	-	1,382	68,000	(1,382)	(66,618)
Gain (Loss) on Disposal of Capital Assets	(23,243)	45,340	105,348	(68,583)	(60,008)
Net Nonoperating Revenue	50,283	422,991	683,547	(372,708)	(260,556)
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS</b>	67,230	123,393	(921,676)	(56,163)	1,045,069
<b>CAPITAL CONTRIBUTIONS</b>	-	57,808	518,896	(57,808)	(461,088)
<b>TRANSFERS TO THE CITY</b>	(650,281)	(770,967)	(760,152)	120,686	(10,815)
<b>CHANGE IN NET ASSETS</b>	(583,051)	(589,766)	(1,162,932)	6,715	573,166
Net Assets - Beginning	44,771,870	45,361,636	46,524,568	(589,766)	(1,162,932)
<b>NET ASSETS - ENDING</b>	<u>\$ 44,188,819</u>	<u>\$ 44,771,870</u>	<u>\$ 45,361,636</u>	<u>\$ (583,051)</u>	<u>\$ (589,766)</u>

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2013 AND 2012  
(UNAUDITED)**

**Capital Assets**

The following table summarizes capital assets, net of depreciation, as of December 31, 2013, 2012 and 2011.

**Condensed Schedule of Capital Assets**

	December 31,			2013 to 2012	2012 to 2011
	2013	2012	2011		
Electric Department					
Distribution System	\$ 16,543,831	\$ 16,042,893	\$ 15,714,542	\$ 500,938	\$ 328,351
Street and Security Lighting System	318,028	342,228	367,043	(24,200)	(24,815)
Water Department					
Production Facilities	1,197,244	1,158,690	1,159,141	38,554	(451)
Distribution System	6,604,756	6,753,046	6,911,225	(148,290)	(158,179)
Wastewater Treatment Department					
Lift Station Facilities	1,220,406	1,256,195	1,347,252	(35,789)	(91,057)
Treatment Facilities	26,715,441	27,923,918	28,710,297	(1,208,477)	(786,379)
Land and Land Improvements	1,358,123	1,440,673	1,455,358	(82,550)	(14,685)
Machinery and Equipment	454,858	331,596	369,467	123,262	(37,871)
Furniture and Fixtures	13,101	22,170	41,970	(9,069)	(19,800)
Transportation Equipment	348,316	420,765	407,003	(72,449)	13,762
Service Center	1,576,377	1,712,341	1,838,274	(135,964)	(125,933)
Construction in Progress	536,816	71,532	-	465,284	71,532
<b>Total</b>	<b>\$ 56,887,297</b>	<b>\$ 57,476,047</b>	<b>\$ 58,321,572</b>	<b>\$ (588,750)</b>	<b>\$ (845,525)</b>

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

	2013	2012	2011
Additions and Transfers to Capital Assets Being Depreciated (By Department)			
Electric	\$ 1,660,255	\$ 1,399,164	\$ 1,105,216
Water	369,442	271,216	230,146
Wastewater Treatment	102,563	478,904	11,587,523
General Plant	-	94,704	66,537
	2,132,260	2,243,988	12,989,422
Additions to Construction in Progress	1,580,556	1,293,178	2,109,917
Transfers from Construction in Progress to Capital Assets Being Depreciated	(1,115,272)	(1,221,646)	(12,237,102)
Deletions and Transfers	(71,055)	(128,807)	-
Normal Annual Depreciation	(3,115,239)	(3,032,238)	(3,328,058)
<b>Total</b>	<b>\$ (588,750)</b>	<b>\$ (845,525)</b>	<b>\$ (465,821)</b>

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2013 AND 2012  
(UNAUDITED)**

**Capital Assets (Continued)**

Major capital asset transactions for 2013 and 2012 include the following:

	2013	2012
<b><u>Electric</u></b>		
Distribution Transformers and Metering Purchased	\$ 467,000	\$ 211,200
Expansion of Distribution Feeder System	734,100	912,900
Distribution System Improvements	296,200	194,200
Backyard Lineman	32,500	-
Catepillar Mini-Excavator	46,700	-
<b><u>Water</u></b>		
Acuisition of Meters and Valves	148,000	106,900
Distribution System Improvements	182,800	160,000
<b><u>Wastewater</u></b>		
Lift Station Improvements	53,600	-
Treatment Facility Improvements	41,400	158,900
Sludge Applicator Tractor	-	217,500
Tank Trailer	-	100,800
<b><u>General Plant</u></b>		
Service Center Improvements	-	10,000
Radio System	-	84,700
<b><u>Construction in Progress</u></b>		
Hydroelectric Dam Acquisition Project	473,200	-
Water Treatment Plant Filter Bed Project	13,400	71,500
Water Service Truck Chassis	50,200	

**Debt Administration**

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

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

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

**BRAINERD PUBLIC UTILITIES  
MANAGEMENT'S DISCUSSIONS AND ANALYSIS  
DECEMBER 31, 2013 AND 2012  
(UNAUDITED)**

**Debt Administration (Continued)**

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

**Budgetary Highlights**

The BPU Commission adopts an annual Operating Budget and a Capital Improvement Budget. Because of its enterprise nature, the budgets are not operated as statutory budgets. The Commission and Utilities staff review budget results monthly and the budget is used as a financial management tool. A summary of the 2013 Operating Budget Analysis and the 2014 Operating Budget approved by the Commission is presented is follows:

	2013 Budget	2013 Actual	Favorable (Unfavorable) Variance	2014 Budget
Utility Operating Revenue	\$ 23,810,000	\$ 21,372,560	\$ (2,437,440)	\$ 21,014,400
Other Operating Revenue	286,000	369,926	83,926	299,400
Total Operating Revenue	24,096,000	21,742,486	(2,353,514)	21,313,800
Purchased Power	15,315,000	12,880,626	2,434,374	12,828,000
Other Operating Expense	5,772,000	5,581,007	190,993	5,706,900
Depreciation and Amortization Expense	2,985,000	3,263,906	(278,906)	3,158,400
Total Operating Expense	24,072,000	21,725,539	2,346,461	21,693,300
Operating Income	24,000	16,947	(7,053)	(379,500)
Net Nonoperating Revenue	319,000	50,283	(268,717)	357,600
Income Before Capital Contributions from City and Operating Transfers to the City	343,000	67,230	(275,770)	(21,900)
Operating Transfers to the City	(762,000)	(650,281)	111,719	(612,000)
Change in Net Assets	\$ (419,000)	\$ (583,051)	\$ (164,051)	\$ (633,900)

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

**Requests for Information**

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



**THIS PAGE INTENTIONALLY LEFT BLANK**

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2013 AND 2012**

<b>ASSETS</b>	2013	2012
<b>CAPITAL ASSETS</b>		
In Service	\$ 84,862,754	\$ 83,017,302
Construction in Progress	536,816	71,532
Total Investment in Capital Assets	85,399,570	83,088,834
Less: Accumulated Depreciation	(28,512,273)	(25,612,787)
Net Capital Assets	56,887,297	57,476,047
<b>RESTRICTED ASSETS</b>		
Cash and Investments	3,500,492	3,853,982
Notes Receivable	7,552,666	7,990,999
Notes Receivable - Interest	88,200	93,200
Total Restricted Assets	11,141,358	11,938,181
<b>CURRENT ASSETS</b>		
Cash and Investments	5,376,675	6,986,686
Accounts Receivable	2,689,871	2,845,300
Due from Power Supplier	-	35,429
Interest Receivable	23,911	35,465
Due from the City of Brainerd	115,865	110,890
Inventory	994,387	1,019,855
Prepaid Expenses	56,650	71,341
Total Current Assets	9,257,359	11,104,966
<b>OTHER ASSETS</b>		
Service Territory Acquisitions, Net of Accumulated Amortization	293,096	22,158
Other Charges	-	135,931
Total Other Assets	293,096	158,089
Total Assets	\$ 77,579,110	\$ 80,677,283

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF NET POSITION (CONTINUED)  
DECEMBER 31, 2013 AND 2012**

<b>LIABILITIES AND NET POSITION</b>	2013	2012
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 27,353,344	\$ 26,016,402
Restricted for		
City of Brainerd Contribution	135,136	231,613
Debt Service	9,390,391	9,977,490
Unrestricted	7,309,948	8,546,365
Total Net Position	44,188,819	44,771,870
<b>LONG-TERM LIABILITIES</b>		
Electric Utility Revenue Bonds Payable	6,895,000	7,600,000
General Obligation Sewer Revenue Notes Payable	636,000	839,000
General Obligation Build America Bonds Payable	20,666,000	21,819,000
Compensated Absences	613,825	656,360
Other Postemployment Benefit Obligation	35,824	50,732
Total Long-Term Liabilities	28,846,649	30,965,092
<b>CURRENT LIABILITIES</b>		
Accounts Payable	1,141,173	1,465,374
Electric Utility Revenue Bonds Payable	705,000	675,000
General Obligation Sewer Revenue Notes Payable	203,000	198,000
General Obligation Build America Bonds Payable	1,153,000	1,117,000
Payable to City of Brainerd	135,136	231,613
Accrued Expenses		
Salaries and Withholding Taxes	244,147	248,134
Sales Taxes	70,402	64,475
Current Liabilities Payable from Restricted Assets:		
Bond Interest	291,600	308,700
Conservation Incentive Program Payable	362,362	388,411
Customer Deposits	237,822	243,614
Total Current Liabilities	4,543,642	4,940,321
Total Liabilities	33,390,291	35,905,413
Total Liabilities and Net Position	\$ 77,579,110	\$ 80,677,283

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

<b>OPERATING REVENUES</b>	<u>2013</u>	<u>2012</u>
Utility Revenues		
Residential	\$ 7,067,576	\$ 6,556,340
Commercial	7,985,016	7,392,903
Large Commercial	4,490,711	4,337,511
Industrial	665,825	2,993,945
City of Brainerd	397,806	387,506
Internal Use	765,626	658,367
Total Utility Revenues	<u>21,372,560</u>	<u>22,326,572</u>
Other Operating Revenues		
Penalties	154,988	138,374
Other	214,938	267,173
Total Other Operating Revenues	<u>369,926</u>	<u>405,547</u>
Total Operating Revenues	21,742,486	22,732,119
<b>OPERATING EXPENSES</b>		
Production and Treatment		
Salaries and Wages	531,158	534,947
Purchased Services	696,210	608,012
Supplies and Maintenance	171,697	132,628
Employee Benefits	149,320	162,808
Other Charges	11,286	12,862
Total Production Expenses	<u>1,559,671</u>	<u>1,451,257</u>
Purchased Power	12,880,626	14,498,072
Distribution and Collection		
Salaries and Wages	1,008,644	1,046,379
Purchased Services	483,058	383,469
Supplies and Maintenance	185,196	165,833
Employee Benefits	368,814	407,213
Other Charges	22,337	26,664
Total Distribution and Collection Expenses	<u>2,068,049</u>	<u>2,029,558</u>
Administration		
Salaries and Wages	955,687	956,730
Purchased Services	283,361	268,190
Supplies and Maintenance	86,952	93,797
Insurance and Bonds	93,138	122,884
Employee Benefits	319,175	342,362
Other Charges	214,974	212,710
Total Administration Expenses	<u>1,953,287</u>	<u>1,996,673</u>
Depreciation and Amortization	<u>3,263,906</u>	<u>3,056,157</u>
Total Operating Expenses	<u>\$ 21,725,539</u>	<u>\$ 23,031,717</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING INCOME (LOSS)</b>	\$ 16,947	\$ (299,598)
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Interest Income - Investments	(124,009)	213,155
Interest Income - Notes Receivable	249,849	264,284
Interest Expense	(1,090,384)	(1,159,579)
Local Option Sales Tax	875,642	880,526
Federal Grant Revenue - Build America Bond	162,428	177,883
Other Grant Revenue	-	1,382
Gain (Loss) on Disposal of Capital Assets	(23,243)	45,340
Net Nonoperating Revenue	<u>50,283</u>	<u>422,991</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS</b>	67,230	123,393
<b>CAPITAL CONTRIBUTIONS</b>	-	57,808
<b>TRANSFERS TO THE CITY</b>	<u>(650,281)</u>	<u>(770,967)</u>
<b>CHANGE IN NET POSITION</b>	(583,051)	(589,766)
Net Position - Beginning	<u>44,771,870</u>	<u>45,361,636</u>
<b>NET POSITION - ENDING</b>	<u>\$ 44,188,819</u>	<u>\$ 44,771,870</u>

**BRainerd PUBLIC UTILITIES  
BRainerd, MINNESOTA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 21,906,713	\$ 22,663,464
Cash Payments to Employees for Services	(2,542,011)	(2,512,954)
Cash Payments to Other Suppliers of Goods or Services	(16,181,992)	(17,350,361)
Net Cash Provided by Operating Activities	3,182,710	2,800,149
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer to Primary Government	(746,758)	(693,348)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to Utility Plant	(2,652,901)	(2,143,748)
Proceeds from Local Option Sales Tax	871,384	878,317
Principal Paid on Long-Term Debt	(1,990,000)	(1,926,000)
Interest Paid on Long-Term Debt	(1,107,484)	(1,172,791)
Payments on Capital Lease	-	(25,000)
Principal Received on Notes Receivable	438,333	425,334
Federal Grant Revenue - Build America Bond	165,528	181,183
Proceeds from Sale of Utility Plant	38,424	136,321
Net Cash Used by Capital and Related Financing Activities	(4,236,716)	(3,646,384)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	142,394	504,956
Purchase of Investments	(1,800,000)	(5,536,000)
Redemption of Investments	1,800,000	6,336,000
Net Cash Provided by Investing Activities	142,394	1,304,956
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,658,370)	(234,627)
Cash and Cash Equivalents - Beginning	5,569,188	5,803,815
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 3,910,818	\$ 5,569,188

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 16,947	\$ (299,598)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	3,263,906	3,056,157
Revenue Reduced for Uncollectible Accounts	46,902	40,504
(Increase) Decrease in Assets:		
Accounts Receivable	154,712	(214,063)
Due from Power Supplier	35,429	(9,715)
Prepaid Expenses	14,691	25,551
Inventories	25,468	61,551
Increase (Decrease) in Liabilities:		
Accounts Payable	(288,001)	(44,062)
Accrued Liabilities	(3,852)	(2,145)
Conservation Incentive Program Payable	(26,049)	144,257
Accrued Compensated Absences	(42,535)	38,113
Other Postemployment Benefit Obligation	(14,908)	3,599
Net Cash Provided by Operating Activities	\$ 3,182,710	\$ 2,800,149
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS</b>		
Cash and Investments - Current Assets	\$ 5,376,675	\$ 6,986,686
Cash and Investments - Restricted Assets	3,500,492	3,853,982
Cash and Investments - Balance Sheets	8,877,167	10,840,668
Less: Investments not Meeting the Definition of Cash Equivalents	4,966,349	5,271,480
Cash and Cash Equivalents - Ending	\$ 3,910,818	\$ 5,569,188
<b>NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Utility Plant on Account	\$ (34,617)	\$ 27,153
Net Decrease in Fair Value of Investments	(305,131)	(7,963)

**THIS PAGE INTENTIONALLY LEFT BLANK**



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The financial statements of Brainerd Public Utilities (BPU) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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

***Reporting Entity***

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

The City is financially accountable if it appoints a voting majority of the organization's governing body and is either 1) able to impose its will on that organization, or 2) there is a potential for the organization to provide specific financial benefits to, or impose financial burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the City.

Since BPU's operating and capital budgets must be approved by the City Council, it has the potential to provide specific financial benefits to the City. This capability qualifies BPU as a component unit of the City. There are no component units of BPU.

***Basis of Accounting***

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recognized when earned. Expenses are recorded when the related liability is incurred. The principal operating revenues and expenses are utility revenues and purchases, production, distribution, and administrative expenses.

Proprietary funds distinguish operating revenues and expenses from other items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of BPU is charges to customers for sales of electricity, water, and wastewater treatment. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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

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

depreciation on capital assets. All revenues and expenses not meeting this definition are reported as other revenues and expenses.

When both restricted and unrestricted resources are available for use, it is BPU's policy to use restricted resources first, and then unrestricted resources as they are needed.

***Capital Assets***

Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by BPU for the years ended December 31, 2013 and 2012 was \$1,090,384 and \$1,159,579, respectively, and the amount capitalized for the same time periods was zero for both years.

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

Land and Land Improvements	10-20 years
Buildings	5-30 years
Distribution Systems	7-50 years
Production Systems	5-50 years
Machinery and Equipment	5-15 years
Transportation Equipment	5-10 years
Collection and Treatment Systems	5-80 years

***Deposits and Investments***

BPU's cash and cash equivalents are considered to be cash on hand, demand deposits, non-negotiable certificates of deposit, repurchase agreements, and short-term investments with original maturities of three months or less from the date of acquisition. Investments consisting of government securities and commercial paper are recorded at fair value except for those with original maturities of under one year are recorded at cost.

***Receivables/Payables***

Outstanding balances between BPU and the primary government are reported as due from/to the City. An allowance for doubtful accounts is recorded monthly based on historical experience and management's evaluation of receivables at the end of year. Accounts are written off when deemed uncollectible. The balance of allowance for doubtful accounts as of December 31, 2013 and 2012 was zero for both years.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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

***Inventory***

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

***Restricted Assets***

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by external parties. Current liabilities payable from these restricted assets are so classified.

***Compensated Absences***

It is BPU's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation and sick leave are recorded as expenses and liabilities as the benefits accrue to the employees. Employees are permitted to accumulate up to 240 hours of unused vacation benefits and 960 hours of unused sick benefits. These benefits are paid to employees upon retirement at the employee's current level of compensation conditioned on meeting certain length of service requirements. Severance benefits consist of lump sum retirement payments and post-employment health care benefits. BPU maintains one retirement payment plan for its employee group. BPU makes payment to an independent trustee who administers a health savings account for each retiree for unused sick pay accumulated at time of retirement.

***Customer Deposits***

Customer deposits are recorded for security deposits paid by customers to receive utility services. Deposits are credited to customer accounts with good credit history in accordance with criteria established in BPU policies. Customers are paid interest on deposits at the rate established annually by the Minnesota Department of Commerce.

***Long-Term Liabilities***

Long-term debt and other obligations are reported as BPU liabilities. Outstanding revenue bond and note debt of BPU is issued on behalf of BPU by the City of Brainerd and is backed by a pledge of net revenues of BPU.

***Revenue Recognition***

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

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

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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

***Net Position***

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

**NOTE 2 CAPITAL ASSETS**

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

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

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

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

Capital assets not being depreciated totaled \$1,839,729 and \$1,137,446 at December 31, 2013 and 2012, respectively.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 3 RESTRICTED ASSETS**

**Cash and Investments**

At December 31, 2013 and 2012, restricted cash and investments consisted of the following:

	2013	2012
Customer Deposits	\$ 237,822	\$ 243,614
City of Brainerd Contribution	135,136	231,613
Conservation Incentive Program	362,362	388,411
Electric Utility Revenue Bonds Debt Service Reserve	1,779,105	1,675,473
General Obligation Revenue Notes and Bonds Debt Service Reserve	986,067	1,314,871
Total Restricted Cash and Investments	\$ 3,500,492	\$ 3,853,982

Customer Deposits are amounts restricted for refunds of customer security deposits. City of Brainerd Contribution is restricted by agreement with City for monthly operating transfer to City and payment of wastewater collection and stormwater charges to City. Conservation Incentive Program is restricted by State Statute for electric customer conservation programs. Debt Service Reserves represents amounts held in reserve under bond and note covenants to fund electric and wastewater treatment system improvements and bond principal and interest payments in the event operating funds are not sufficient to meet such purposes.

**Notes Receivable**

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

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

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 3 RESTRICTED ASSETS (CONTINUED)**

**Notes Receivable (Continued)**

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

	<u>Note No.1</u>	<u>Note No.2</u>	<u>Total</u>
Beginning Balance	\$ 345,666	\$7,645,333	\$7,990,999
Payments Received	(66,000)	(372,333)	(438,333)
Ending Balance	<u>\$ 279,666</u>	<u>\$7,273,000</u>	<u>\$7,552,666</u>

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

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

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, 2013 and 2012 of \$88,200 and \$93,200, respectively, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the years ended December 31, 2013 and 2012 was \$249,849 and \$264,284, respectively.

**NOTE 4 DEPOSITS AND INVESTMENTS**

Cash and investments are presented at December 31, 2013 and 2012, as follows:

	<u>2013</u>	<u>2012</u>
Restricted Cash and Investments	\$ 3,500,492	\$ 3,853,982
Current Cash and Investments	5,376,675	6,986,686
Total	<u>\$ 8,877,167</u>	<u>\$ 10,840,668</u>

Cash and investments at December 31, 2013 and 2012, consisted of the following:

	<u>2013</u>	<u>2012</u>
Petty Cash	\$ 1,500	\$ 1,500
Deposits	3,909,318	5,567,688
Investments	4,966,349	5,271,480
Total	<u>\$ 8,877,167</u>	<u>\$ 10,840,668</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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

***Deposits***

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

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2013, there were no deposits subject to custodial risk.

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

***Authorized Investments***

Under the provisions of the City of Brainerd's investment policy revised by Council on February 4, 2013 and in accordance with *Minnesota Statutes*, BPU may invest in the following types of investments:

- securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by *Minnesota Statutes* §118A.04, subd.6;
- mutual funds through shares of registered investments companies provided the mutual fund receives certain ratings depending on its investments;
- general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service (G.O. rated "A" or better and revenue obligation rated "AA" or better);
- bankers' acceptances of United States banks;
- commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- 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, 2013 AND 2012**

**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, 2013 by maturity:

Investment Type	Investment Maturities (in Years)			Fair Value
	Less Than 1	1-5	More Than 5	
FHLB	\$ -	\$ 474,005	\$ 3,427,344	\$ 3,901,349
CP-Natixis US Finance	1,065,000	-	-	1,065,000
Total	<u>\$ 1,065,000</u>	<u>\$ 474,005</u>	<u>\$ 3,427,344</u>	<u>\$ 4,966,349</u>

***Credit Risk***

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. BPU does not have a specific policy for credit risk, but follows *Minnesota Statutes* for allowable investments. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. S&P credit ratings for BPU's investments as of December 31, 2013 are as follows:

Investment Type	S & P Rating	% of Investments
FHLB	AA+	78.6%
CP-Natixis US Finance	A1	21.4%
Total		<u>100.0%</u>

***Concentration of Credit Risk***

The investment policy of the BPU contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by *Minnesota Statutes*. Investments in any one issuer, as a percentage of total BPU investments as of December 31, 2013, are disclosed above.

**Investments**

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. BPU does not have a policy for custodial credit risk over investments.



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**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, 2013 and 2012, BPU owed the City the following:

	2013	2012
Monthly Operating Contribution	\$ 50,533	\$ 62,011
Water System Improvement Projects	-	81,483
Wastewater Collection and Storm Sewer Charges	84,603	88,119
Total	<u>\$ 135,136</u>	<u>\$ 231,613</u>

**NOTE 6 CAPITAL LEASE PAYABLE**

On June 29, 2004 BPU entered into a lease agreement with Brainerd Independent School District No. 181 (ISD No. 181) to acquire fiber optic strands from ISD No. 181. Per the agreement, the term of the lease will be for a 25 year period commencing June 29, 2004. At the conclusion of the lease, BPU has the option to purchase the strands for \$1. The consideration for the 25-year lease will be \$250,000 payable in ten \$25,000 annual payments, commencing on December 31, 2004. BPU's annual lease payments will be in cash or any combination of cash and/or in-kind services as may be mutually agreed by BPU and ISD No. 181. Capital assets recorded under capital leases total \$250,000 at both December 31, 2013 and 2012, with related accumulated depreciation of \$112,872 and \$99,593, respectively. Depreciation expense related to this asset for the years ended December 31, 2013 and 2012 was \$13,279 and \$13,279, respectively. There was no capital lease activity for the years ended December 31, 2013 and 2012.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 7 LONG-TERM DEBT**

Long-term debt consists of the following as of December 31, 2013 and 2012:

	2013	2012
<b><i>Electric Utility Revenue Bonds</i></b>		
Electric Utility Revenue Bonds, Series 2007A, issued 09/01/07 with a final maturity of 12/1/22. Interest is paid semi-annually and principal is payable annually. The interest rate ranges from 4.0% to 4.375%. Total original issue was \$11,140,000.	\$ 7,600,000	\$ 8,275,000
<b><i>General Obligation Sewer Revenue Notes</i></b>		
General Obligation Sewer Revenue Note, Series 2008, issued 02/08/08 with a final maturity of 8/20/17. Interest is paid semi-annually and principal is payable annually. The interest rate is 2.23%. Total original issue was \$1,965,098.	839,000	1,037,000
<b><i>General Obligation Build America Bonds</i></b>		
General Obligation Build America Bonds, Series 2009, issued 5/4/09 with a final maturity of 8/20/28. Interest is paid semi-annually and principal is payable annually. The interest rate is 3.233%. Total original issue was \$25,966,788.	21,819,000	22,936,000
Total Debt	30,258,000	32,248,000
<u>Less Amount Due Within One Year</u>		
Electric Utility Revenue Bonds	705,000	675,000
General Obligation Sewer Revenue Notes	203,000	198,000
General Obligation Build America Bonds	1,153,000	1,117,000
Net Long-Term Debt	\$ 28,197,000	\$ 30,258,000

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

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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

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

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

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

Year Ending December 31,	Electric Utility Revenue Bonds		
	Principal	Interest	Total
2014	\$ 705,000	\$ 315,838	\$ 1,020,838
2015	735,000	287,638	1,022,638
2016	775,000	258,238	1,033,238
2017	800,000	227,238	1,027,238
2018	835,000	195,238	1,030,238
2019-2022	3,750,000	415,893	4,165,893
Total	<u>\$ 7,600,000</u>	<u>\$ 1,700,083</u>	<u>\$ 9,300,083</u>

Year Ending December 31,	General Obligation Sewer Revenue Notes		
	Principal	Interest	Total
2014	\$ 203,000	\$ 18,710	\$ 221,710
2015	207,000	14,183	221,183
2016	212,000	9,567	221,567
2017	217,000	4,839	221,839
Total	<u>\$ 839,000</u>	<u>\$ 47,299</u>	<u>\$ 886,299</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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

Year Ending December 31,	General Obligation Build America Bonds		
	Principal	Interest	Total
2014	\$ 1,153,000	\$ 705,408	\$ 1,858,408
2015	1,190,000	668,132	1,858,132
2016	1,229,000	629,659	1,858,659
2017	1,269,000	589,926	1,858,926
2018	1,310,000	548,899	1,858,899
2019-2023	7,213,000	2,081,211	9,294,211
2024-2028	8,455,000	837,412	9,292,412
Total	<u>\$ 21,819,000</u>	<u>\$ 6,060,647</u>	<u>\$ 27,879,647</u>

Electric Utility Revenue Bonds

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

General Obligation Sewer Revenue Notes and General Obligation Build America Bonds

The resolutions authorizing the issuance of General Obligation Sewer Revenue Notes and General Obligation Build America Bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. To comply with coverage test, local option sales tax proceeds received equaling 105% of the following year's principal and interest payment is reported as restricted cash and investment. The amount shown as restricted cash and investments as of December 31, 2013 was \$986,067. The Interest payments are made semi-annually on February 20 and August 20, and principal payments on August 20.

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

	Electric Utility Revenue Bonds	G.O. Sewer Revenue Notes	G.O. Build America Bonds
Beginning Balance	\$ 8,275,000	\$ 1,037,000	\$ 22,936,000
Retirements	(675,000)	(198,000)	(1,117,000)
Ending Balance	<u>\$ 7,600,000</u>	<u>\$ 839,000</u>	<u>\$ 21,819,000</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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

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

	Electric Utility Revenue Bonds	G.O. Sewer Revenue Notes	G.O. Build America Bonds
Beginning Balance	\$ 8,925,000	\$ 1,231,000	\$ 22,936,000
Retirements	(650,000)	(194,000)	(1,082,000)
Ending Balance	<u>\$ 8,275,000</u>	<u>\$ 1,037,000</u>	<u>\$ 21,854,000</u>

**NOTE 8 RISK MANAGEMENT**

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

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

**NOTE 9 DEFINED BENEFIT PENSION PLAN**

Plan Description

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

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

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Funding Policy

Coordinated Plan members are required to contribute 6.25% of the annual covered salary and BPU is required to contribute at an actuarially determined rate which was 7.25% for 2013. The contribution requirements of the plan members and BPU are established and may be amended by state statute. The BPU's contributions to GERP for the years ending December 31, 2013, 2012, and 2011 were \$194,206, \$200,305, and \$195,862, respectively equal to the required contributions for each year.

**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

BPU provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. BPU provides benefits for retirees as required by *Minnesota Statutes* §471.61 subdivision 2b. Active employees who retire from BPU when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under BPU's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay 100% of the total premium cost. As of January 1, 2013, there were five retirees receiving health benefits from BPU's health plan.

***Annual OPEB Cost and Net OPEB Obligation***

BPU's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of BPU's annual OPEB cost, the amount actually contributed to the plan, and changes in BPU's net OPEB obligation at December 31, 2013 and 2012:

	2013	2012
Annual Required Contribution (ARC):	\$ 60,406	\$ 60,406
Interest on Net OPEB Obligation	2,283	2,121
Adjustment to ARC	(6,455)	(4,633)
Annual OPEB Cost	<u>56,234</u>	<u>57,894</u>
Contributions during the year	71,142	54,295
Net OPEB Obligation	(14,908)	3,599
Net OPEB - Beginning of the Year	50,732	47,133
Net OPEB - End of the Year	<u>\$ 35,824</u>	<u>\$ 50,732</u>
Percentage Contributed	<u>127%</u>	<u>94%</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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

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

BPU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2013, 2012, and 2011 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2013	\$ 56,234	\$ 71,142	127%	\$ (14,908)
December 31, 2012	\$ 57,894	\$ 54,295	94%	\$ 3,599
December 31, 2011	\$ 42,202	\$ 31,008	73%	\$ 11,194

***Funding Status***

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

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

***Actuarial Methods and Assumptions***

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

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

In the January 1, 2012 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.50% discount rate, which is based on the estimated long-term investment yield on the general assets of BPU using an underlying long-term inflation assumption of 2.50%. The annual healthcare cost trend rate is 8.00% initially, reduced incrementally to an ultimate rate of 5.00% after six years. The unfunded actuarial accrued liability is being amortized using a level dollar amount over thirty years on a closed basis.

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 11 OPERATING TRANSFERS TO THE CITY OF BRAINERD**

Commencing July 1, 2003, BPU began making regular financial contributions to the City. These contributions are made on a monthly basis based on retail sales by the BPU Electric Department. Retail sales by the Electric Department are defined as energy sales expressed in kilowatt-hours (kWh) to BPU retail electric customers. For purposes of calculating the contribution amount, energy sales to BPU retail electric customers do not include sales to any City facilities or any energy usage by BPU departments. The monthly BPU contribution is a cash contribution to the City equal to \$0.0035 per kWh (for all customers except for the industrial customer whose rate is \$0.0030 per kWh) based on energy sales to retail electric customers in the previous month.

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

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

**NOTE 12 MAJOR CUSTOMER**

In April 2013, BPU's industrial customer ceased operations at the Brainerd plant, therefore it was not considered a major customer for 2013. During the year ended December 31, 2012 net sales to one industrial customer totaled \$3,011,204 representing 13.5% of total utility revenue. A concentration of BPU's accounts receivable from this one industrial customer at December 31, 2012 consisted of approximately 10%.



**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 13 COMMITMENTS**

Power Contract

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

Purchase of Brainerd Hydroelectric Dam

On November 25, 2013, the City of Brainerd, on behalf of BPU, entered into an Asset Purchase Agreement (APA) with Wausau Paper Mills, LLC, to purchase the Brainerd Hydroelectric Dam (the Dam) and related assets including 37 acres of land the remaining life of FERC license which expires in 2023 for \$4,115,000. The capacity output of the Dam is 2.9 megawatts. On March 12, 2014, the APA was amended to reflect an adjusted purchase price of \$2,600,000. An earnest payment of \$411,500 was made with an escrow agent in December 2013. The closing is expected to occur in June 2014.

Rehabilitation of Water Towers

On February 25, 2014, BPU entered into the following ten-year water tank maintenance service agreements with a total cost of \$1,895,200 with SEH Design/Build, Inc.:

- 1.0 million gallon downtown elevated tower – New coating system for both interior and exterior scheduled for 2014 and related maintenance and repairs for a total cost of \$1,282,000 of which \$917,500 is related to new coating system.
- 600,000 gallon elevated tower at former state hospital site – New exterior coating system scheduled for 2015 and related maintenance and repairs for a total cost of \$613,200 of which \$381,400 is related to new exterior coating system.

**THIS PAGE INTENTIONALLY LEFT BLANK**

## REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES  
 BRAINERD, MINNESOTA  
 SCHEDULE OF FUNDING PROGRESS OTHER POSTEMPLOYMENT BENEFIT PLAN  
 YEAR ENDED DECEMBER 31, 2013**

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

## SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING STATEMENT OF NET POSITION BY DEPARTMENT  
DECEMBER 31, 2013  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)**

ASSETS	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER TREATMENT</u>
<b>CAPITAL ASSETS</b>			
Construction in Progress	\$ 473,168	\$ 63,648	\$ -
In Service	32,385,368	16,152,822	36,324,564
Total Investment in Capital Assets	<u>32,858,536</u>	<u>16,216,470</u>	<u>36,324,564</u>
Less: Accumulated Depreciation	(13,651,016)	(7,815,188)	(7,046,069)
Net Capital Assets	<u>19,207,520</u>	<u>8,401,282</u>	<u>29,278,495</u>
<b>RESTRICTED ASSETS</b>			
Cash and Investments			
Customer Deposits	237,822	-	-
City of Brainerd Contribution	50,533	-	84,603
Conservation Incentive Program	362,362	-	-
Debt Service Reserve	1,779,105	-	986,067
Total Restricted Cash and Investments	<u>2,429,822</u>	<u>-</u>	<u>1,070,670</u>
Notes Receivable	-	-	7,552,666
Notes Receivable - Interest	-	-	88,200
Total Restricted Assets	<u>2,429,822</u>	<u>-</u>	<u>8,711,536</u>
<b>CURRENT ASSETS</b>			
Cash and Investments	(48,362)	882,063	4,542,974
Accounts Receivable	2,067,586	242,923	379,362
Due from Power Supplier	-	-	-
Interest Receivable	23,911	-	-
Due from the City of Brainerd	27,829	5,493	82,543
Inventory	917,372	77,015	-
Prepaid Expenses	54,100	-	2,550
Total Current Assets	<u>3,042,436</u>	<u>1,207,494</u>	<u>5,007,429</u>
<b>OTHER ASSETS</b>			
Service Territory Acquisitions, Net of Accumulated Amortization	293,096	-	-
Other Charges	-	-	-
Total Other Assets	<u>293,096</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 24,972,874</u>	<u>\$ 9,608,776</u>	<u>\$ 42,997,460</u>

TOTALS

2013	2012
\$ 536,816	\$ 71,532
<u>84,862,754</u>	<u>83,017,302</u>
85,399,570	83,088,834
<u>(28,512,273)</u>	<u>(25,612,787)</u>
56,887,297	57,476,047
237,822	243,614
135,136	231,613
362,362	388,411
<u>2,765,172</u>	<u>2,990,344</u>
3,500,492	3,853,982
7,552,666	7,990,999
<u>88,200</u>	<u>93,200</u>
11,141,358	11,938,181
5,376,675	6,986,686
2,689,871	2,845,300
-	35,429
23,911	35,465
115,865	110,890
994,387	1,019,855
<u>56,650</u>	<u>71,341</u>
9,257,359	11,104,966
293,096	22,158
<u>-</u>	<u>135,931</u>
293,096	158,089
<u>\$ 77,579,110</u>	<u>\$ 80,677,283</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
COMBINING STATEMENT OF NET POSITION BY DEPARTMENT (CONTINUED)  
DECEMBER 31, 2013  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)**

LIABILITIES AND NET POSITION	ELECTRIC	WATER	WASTEWATER TREATMENT
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 12,331,567	\$ 8,401,282	\$ 6,620,495
Restricted for			
City of Brainerd Contribution	50,533	-	84,603
Debt Service	1,028,158	-	8,362,233
Unrestricted	1,643,845	964,346	4,701,757
Total Net Position	<u>15,054,103</u>	<u>9,365,628</u>	<u>19,769,088</u>
<b>LONG-TERM LIABILITIES</b>			
Electric Utility Revenue Bonds Payable	6,895,000	-	-
General Obligation Sewer Revenue Notes Payable	-	-	636,000
General Obligation Build America Bonds Payable	-	-	20,666,000
Compensated Absences	315,258	153,125	145,442
Other Postemployment Benefit Obligation	21,494	7,165	7,165
Total Long-Term Liabilities	<u>7,231,752</u>	<u>160,290</u>	<u>21,454,607</u>
<b>CURRENT LIABILITIES</b>			
Accounts Payable	1,109,039	19,640	12,494
Electric Utility Revenue Bonds Payable	705,000	-	-
General Obligation Sewer Revenue Notes Payable	-	-	203,000
General Obligation Build America Bonds Payable	-	-	1,153,000
Payable to City of Brainerd	50,533	-	84,603
Accrued Expenses			
Salaries and Withholding Taxes	127,351	61,010	55,786
Sales Taxes	68,012	2,208	182
Current Liabilities Payable from Restricted Assets:			
Bond Interest	26,900	-	264,700
Conservation Incentive Program Payable	362,362	-	-
Customer Deposits	237,822	-	-
Total Current Liabilities	<u>2,687,019</u>	<u>82,858</u>	<u>1,773,765</u>
Total Liabilities	<u>9,918,771</u>	<u>243,148</u>	<u>23,228,372</u>
Total Liabilities and Net Position	<u>\$ 24,972,874</u>	<u>\$ 9,608,776</u>	<u>\$ 42,997,460</u>



TOTALS

2013	2012
\$ 27,353,344	\$ 26,016,402
135,136	231,613
9,390,391	9,977,490
<u>7,309,948</u>	<u>8,546,365</u>
44,188,819	44,771,870
6,895,000	7,600,000
636,000	839,000
20,666,000	21,819,000
613,825	656,360
<u>35,824</u>	<u>50,732</u>
28,846,649	30,965,092
1,141,173	1,465,374
705,000	675,000
203,000	198,000
1,153,000	1,117,000
135,136	231,613
244,147	248,134
70,402	64,475
291,600	308,700
362,362	388,411
<u>237,822</u>	<u>243,614</u>
4,543,642	4,940,321
33,390,291	35,905,413
<u>\$ 77,579,110</u>	<u>\$ 80,677,283</u>

**BRAINERD PUBLIC UTILITIES  
 BRAINERD, MINNESOTA  
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 BY DEPARTMENT  
 FOR THE YEAR ENDED DECEMBER 31, 2013  
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2012)**

	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER TREATMENT</u>
<b>OPERATING REVENUES</b>			
Utility Revenues			
Residential	\$ 4,783,991	\$ 1,050,700	\$ 1,232,885
Commercial	6,026,395	921,460	1,037,161
Large Commercial	4,490,711	-	-
Industrial	665,825	-	-
City of Brainerd	307,202	79,992	10,612
Internal Use	698,410	66,890	326
Total Utility Revenues	<u>16,972,534</u>	<u>2,119,042</u>	<u>2,280,984</u>
Other Operating Revenues			
Penalties	110,835	18,362	25,791
Other	185,490	23,856	5,592
Total Other Operating Revenues	<u>296,325</u>	<u>42,218</u>	<u>31,383</u>
Total Operating Revenues	17,268,859	2,161,260	2,312,367
<b>OPERATING EXPENSES</b>			
Production and Treatment			
Salaries and Wages	-	225,005	306,153
Purchased Services	-	113,166	583,044
Supplies and Maintenance	-	73,624	98,073
Employee Benefits	-	65,863	83,457
Other Charges	-	200	11,086
Total Production Expenses	<u>-</u>	<u>477,858</u>	<u>1,081,813</u>
Purchased Power	12,880,626	-	-
Distribution and Collection			
Salaries and Wages	689,832	206,361	112,451
Purchased Services	240,480	125,690	116,888
Supplies and Maintenance	104,752	68,630	11,814
Employee Benefits	261,575	77,314	29,925
Other Charges	11,156	11,106	75
Total Distribution and Collection Expenses	<u>1,307,795</u>	<u>489,101</u>	<u>271,153</u>

TOTALS

	2013	2012
\$	7,067,576	\$ 6,556,340
	7,985,016	7,392,903
	4,490,711	4,337,511
	665,825	2,993,945
	397,806	387,506
	765,626	658,367
	<u>21,372,560</u>	<u>22,326,572</u>
	154,988	138,374
	214,938	267,173
	<u>369,926</u>	<u>405,547</u>
	21,742,486	22,732,119
	531,158	534,947
	696,210	608,012
	171,697	132,628
	149,320	162,808
	11,286	12,862
	<u>1,559,671</u>	<u>1,451,257</u>
	12,880,626	14,498,072
	1,008,644	1,046,379
	483,058	383,469
	185,196	165,833
	368,814	407,213
	22,337	26,664
	<u>2,068,049</u>	<u>2,029,558</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, 2013  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2012)**

	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER TREATMENT</u>
<b>OPERATING EXPENSES (CONTINUED)</b>			
Administration			
Salaries and Wages	\$ 539,097	\$ 205,987	\$ 210,603
Purchased Services	190,366	52,251	40,744
Supplies and Maintenance	57,798	17,265	11,889
Insurance and Bonds	36,561	25,068	31,509
Employee Benefits	183,336	69,793	66,046
Other Charges	158,951	26,585	29,438
Total Administration Expenses	<u>1,166,109</u>	<u>396,949</u>	<u>390,229</u>
Depreciation and Amortization	<u>1,358,437</u>	<u>493,249</u>	<u>1,412,220</u>
Total Operating Expenses	<u>16,712,967</u>	<u>1,857,157</u>	<u>3,155,415</u>
<b>OPERATING INCOME (LOSS)</b>	555,892	304,103	(843,048)
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest Income - Investments	(3,674)	(5,395)	(114,940)
Interest Income - Notes Receivable	-	-	249,849
Interest Expense	(340,538)	-	(749,846)
Local Option Sales Tax	-	-	875,642
Federal Grant Revenue - Build America Bond	-	-	162,428
Other Grant Revenue	-	-	-
Gain (Loss) on Disposal of Capital Assets	38,424	-	(61,667)
Net Nonoperating Revenue (Expense)	<u>(305,788)</u>	<u>(5,395)</u>	<u>361,466</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	250,104	298,708	(481,582)
<b>CAPITAL CONTRIBUTIONS</b>	-	-	-
<b>TRANSFERS TO THE CITY</b>	<u>(650,281)</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ (400,177)</u>	<u>\$ 298,708</u>	<u>\$ (481,582)</u>

TOTALS

2013	2012
\$ 955,687	\$ 956,730
283,361	268,190
86,952	93,797
93,138	122,884
319,175	342,362
214,974	212,710
<u>1,953,287</u>	<u>1,996,673</u>
3,263,906	3,056,157
<u>21,725,539</u>	<u>23,031,717</u>
16,947	(299,598)
(124,009)	213,155
249,849	264,284
(1,090,384)	(1,159,579)
875,642	880,526
162,428	177,883
-	1,382
<u>(23,243)</u>	<u>45,340</u>
<u>50,283</u>	<u>422,991</u>
67,230	123,393
-	57,808
<u>(650,281)</u>	<u>(770,967)</u>
<u>\$ (583,051)</u>	<u>\$ (589,766)</u>

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Cost			
	12/31/2012	Additions	Deductions	12/31/2013
<b>Electric Department</b>				
<u>Distribution</u>				
Land and Land Improvements	\$ 186,028	\$ -	\$ -	\$ 186,028
Distribution System	25,209,786	1,497,344	-	26,707,130
Street and Security Lighting System	563,310	-	-	563,310
Machinery and Equipment	675,357	162,911	127,027	711,241
Transportation Equipment	1,178,498	-	22,341	1,156,157
Total Electric Department	<u>27,812,979</u>	<u>1,660,255</u>	<u>149,368</u>	<u>29,323,866</u>
<b>Water Department</b>				
<u>Production</u>				
Structures and Improvements	1,688,355	-	-	1,688,355
Wells, Pumps and Accessories	421,209	-	-	421,209
Water Treatment Plant Equipment	1,447,382	148,013	-	1,595,395
Total Production	<u>3,556,946</u>	<u>148,013</u>	<u>-</u>	<u>3,704,959</u>
<u>Distribution</u>				
Distribution System	10,622,337	182,788	-	10,805,125
Machinery and Equipment	254,658	38,641	30,645	262,654
Transportation Equipment	203,520	-	-	203,520
Total Water Distribution	<u>11,080,515</u>	<u>221,429</u>	<u>30,645</u>	<u>11,271,299</u>
Total Water Department	<u>14,637,461</u>	<u>369,442</u>	<u>30,645</u>	<u>14,976,258</u>
<b>Wastewater Treatment Department</b>				
Land and Land Improvements	35,484	1	-	35,485
Collection System	3,697,872	53,636	-	3,751,508
Treatment Facility	30,553,617	41,390	-	30,595,007
Machinery and Equipment	353,396	7,536	6,795	354,137
Transportation Equipment	124,115	-	-	124,115
Total Wastewater Treatment Department	<u>34,764,484</u>	<u>102,563</u>	<u>6,795</u>	<u>34,860,252</u>
<b>General Plant</b>				
Land and Land Improvements	1,552,904	-	100,000	1,452,904
Service Center	3,603,696	-	-	3,603,696
Furniture and Fixtures	382,507	-	-	382,507
Transportation Equipment	197,471	-	-	197,471
Storage Building	65,800	-	-	65,800
Total General Plant	<u>5,802,378</u>	<u>-</u>	<u>100,000</u>	<u>5,702,378</u>
Total Capital Assets in Service	83,017,302	2,132,260	286,808	84,862,754
Construction Work in Progress	<u>71,532</u>	<u>1,580,556</u>	<u>1,115,272</u>	<u>536,816</u>
Total Investment in Capital Assets	<u>\$ 83,088,834</u>	<u>\$ 3,712,816</u>	<u>\$ 1,402,080</u>	<u>\$ 85,399,570</u>

Composite Depreciation Rates	Accumulated Depreciation				Percent of Asset Balance
	12/31/2012	Additions	Deductions	12/31/2013	
0.0%	\$ -	\$ -	\$ -	\$ -	0.0%
3.7%	9,166,893	996,406	-	10,163,299	38.1%
4.3%	221,082	24,200	-	245,282	43.5%
6.6%	521,380	47,083	121,394	447,069	62.9%
5.5%	841,727	63,978	22,341	883,364	76.4%
3.9%	<u>10,751,082</u>	<u>1,131,667</u>	<u>143,735</u>	<u>11,739,014</u>	40.0%
1.5%	1,541,145	25,692	-	1,566,837	92.8%
2.9%	356,685	12,316	-	369,001	87.6%
4.5%	500,426	71,451	-	571,877	35.8%
3.0%	<u>2,398,256</u>	<u>109,459</u>	<u>-</u>	<u>2,507,715</u>	67.7%
3.1%	3,869,291	331,078	-	4,200,369	38.9%
3.9%	185,216	10,268	26,890	168,594	64.2%
0.0%	203,520	-	-	203,520	100.0%
3.0%	<u>4,258,027</u>	<u>341,346</u>	<u>26,890</u>	<u>4,572,483</u>	40.6%
3.0%	<u>6,656,283</u>	<u>450,805</u>	<u>26,890</u>	<u>7,080,198</u>	47.3%
-	-	-	-	-	0.0%
2.4%	2,441,677	89,425	-	2,531,102	67.5%
4.1%	2,629,699	1,249,867	-	3,879,566	12.7%
5.4%	245,219	19,087	6,795	257,511	72.7%
0.0%	<u>124,114</u>	<u>1</u>	<u>-</u>	<u>124,115</u>	100.0%
3.9%	5,440,709	1,358,380	6,795	6,792,294	19.5%
1.4%	333,743	20,884	38,333	316,294	21.8%
3.7%	1,907,531	132,674	-	2,040,205	56.6%
2.4%	360,337	9,069	-	369,406	96.6%
4.3%	113,478	8,470	-	121,948	61.8%
5.0%	49,624	3,290	-	52,914	80.4%
3.1%	<u>2,764,713</u>	<u>174,387</u>	<u>38,333</u>	<u>2,900,767</u>	50.9%
3.7%	25,612,787	3,115,239	215,753	28,512,273	33.6%
-	-	-	-	-	-
3.6%	<u>\$ 25,612,787</u>	<u>\$ 3,115,239</u>	<u>\$ 215,753</u>	<u>\$ 28,512,273</u>	33.4%

**THIS PAGE INTENTIONALLY LEFT BLANK**



## OTHER INFORMATION

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
ELECTRIC DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2004 THROUGH 2013  
(UNAUDITED)**

	2004	2005	2006	2007	2008	2009
<b>Electric Capital Assets</b>						
In Service (Thousands)	\$ 16,890	\$ 18,371	\$ 19,402	\$ 20,851	\$ 25,166	\$ 28,142
Investment Per Meter	\$ 2,278	\$ 2,412	\$ 2,512	\$ 2,698	\$ 3,228	\$ 3,607
Investment Per Dollar of Electric Revenue	\$ 1.37	\$ 1.30	\$ 1.29	\$ 1.22	\$ 1.45	\$ 1.75
<b>Accumulated Depreciation (Thousands)</b>	\$ 8,207	\$ 8,818	\$ 9,582	\$ 10,241	\$ 9,404	\$ 10,409
Percent of Capital Assets	48.6%	48.0%	49.4%	49.1%	37.4%	37.0%
Annual Depreciation (Thousands)	\$ 768	\$ 825	\$ 820	\$ 851	\$ 884	\$ 1,086
Percent of Annual Depreciation to Average Capital Assets in Service	4.6%	4.7%	4.3%	4.2%	3.8%	4.1%
<b>Number of Meters (Year-End)</b>	7,415	7,616	7,723	7,728	7,796	7,801
<b>Cost of Power</b>						
KWH Purchased (Thousands)	197,290	247,648	259,671	262,543	256,066	230,564
Total Cost (Thousands)	\$ 7,991	\$ 9,476	\$ 10,272	\$ 12,112	\$ 11,588	\$ 11,753
Cost Per KWH Purchased (Cents)	4.05	3.82	3.96	4.61	4.53	5.10
Percent of System Loss	5.6%	5.2%	4.7%	4.8%	5.6%	4.2%
Average Load Factor for Year	67.5%	72.3%	73.0%	71.4%	72.0%	70.2%
<b>Electric Revenue</b>						
KWH Sold (Thousands)	186,328	234,765	247,585	249,974	241,640	221,000
Electric Utility Revenue (Thousands)	\$ 12,297	\$ 14,101	\$ 15,051	\$ 17,149	\$ 17,307	\$ 16,079
Per KWH Sold (Cents)	6.60	6.01	6.08	6.86	7.16	7.28
Gross Margin Per KWH (Cents)	2.55	2.19	2.12	2.25	2.63	2.18
<b>Operating Income (Loss) (Thousands)</b>	\$ 1,566	\$ 2,029	\$ 1,643	\$ 1,989	\$ 2,417	\$ 874
<b>Change in Net Position (Thousands)</b>	\$ 1,019	\$ 1,423	\$ 1,129	\$ 1,579	\$ 1,703	\$ 45

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

2010	2011	2012	2013
\$ 29,559	\$ 29,876	\$ 30,874	\$ 32,385
\$ 3,778	\$ 3,825	\$ 3,948	\$ 4,120
\$ 1.79	\$ 1.70	\$ 1.71	\$ 1.91
\$ 11,380	\$ 11,743	\$ 12,556	\$ 13,651
38.5%	39.3%	40.7%	42.2%
\$ 1,137	\$ 1,191	\$ 1,199	\$ 1,238
3.9%	4.0%	4.0%	3.9%
7,824	7,810	7,820	7,861
239,580	242,241	247,092	202,882
\$ 12,873	\$ 14,488	\$ 14,498	\$ 12,881
5.37	5.98	5.87	6.35
3.7%	3.3%	2.7%	2.1%
70.3%	71.0%	72.4%	67.6%
230,756	234,226	240,530	198,534
\$ 16,485	\$ 17,559	\$ 18,054	\$ 16,973
7.14	7.50	7.51	8.56
1.77	1.52	1.64	2.21
\$ 180	\$ (459)	\$ 223	\$ 556
\$ (882)	\$ (1,217)	\$ (772)	\$ (400)

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
WATER DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2004 THROUGH 2013  
(UNAUDITED)**

	2004	2005	2006	2007	2008	2009
<b>Water Capital Assets</b>						
In Service (Thousands)	\$ 9,097	\$ 12,070	\$ 12,689	\$ 13,817	\$ 14,963	\$ 15,464
Investment Per Meter	\$ 2,017	\$ 2,614	\$ 2,712	\$ 2,962	\$ 3,244	\$ 3,355
Investment Per Dollar of Water Revenue	\$ 7.27	\$ 8.59	\$ 7.94	\$ 7.65	\$ 9.30	\$ 9.88
<b>Accumulated Depreciation (Thousands)</b>	\$ 4,546	\$ 5,078	\$ 5,539	\$ 5,950	\$ 6,229	\$ 6,623
Percent of Capital Assets	50.0%	45.8%	43.7%	43.1%	41.6%	42.8%
Annual Depreciation (Thousands)	\$ 399	\$ 510	\$ 509	\$ 465	\$ 471	\$ 470
Percent of Annual Depreciation to Average Capital Assets in Service	4.7%	4.6%	4.1%	3.5%	3.3%	3.1%
<b>Number of Meters (Year-End)</b>	4,511	4,617	4,679	4,664	4,613	4,609
<b>Cost of Water Production</b>						
Gallons Pumped into Distribution System (Thousands)	687,083	685,547	817,520	750,756	540,542	568,687
Total Cost (Thousands)	\$ 291	\$ 314	\$ 419	\$ 419	\$ 432	\$ 435
Cost Per Thousand Gallons Pumped	\$ 0.42	\$ 0.46	\$ 0.51	\$ 0.55	\$ 0.80	\$ 0.76
Percent of System Loss	15.4%	13.7%	11.2%	9.7%	10.5%	20.9%
<b>Water Revenue</b>						
Gallons Sold (Thousands)	581,263	591,740	726,260	678,254	483,738	449,823
Water Utility Revenue (Thousands)	\$ 1,251	\$ 1,405	\$ 1,598	\$ 1,806	\$ 1,609	\$ 1,565
Per Thousand Gallons Sold	\$ 2.15	\$ 2.37	\$ 2.20	\$ 2.66	\$ 3.33	\$ 3.48
Gross Margin Per Thousand Gallons Sold	\$ 1.73	\$ 1.91	\$ 1.69	\$ 2.11	\$ 2.53	\$ 2.72
<b>Operating Income (Loss) (Thousands)</b>	\$ (80)	\$ (66)	\$ (18)	\$ 168	\$ (120)	\$ (172)
<b>Change in Net Position (Thousands) Before Capital Contributions from City</b>	\$ (17)	\$ (93)	\$ (57)	\$ (15)	\$ 186	\$ (112)

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

2010	2011	2012	2013
\$ 15,384	\$ 15,524	\$ 15,814	\$ 16,153
\$ 3,326	\$ 3,359	\$ 3,407	\$ 3,473
\$ 8.92	\$ 8.86	\$ 8.03	\$ 7.62
\$ 6,476	\$ 6,866	\$ 7,349	\$ 7,815
42.1%	44.2%	46.5%	48.4%
\$ 489	\$ 493	\$ 483	\$ 493
3.2%	3.2%	3.1%	3.1%
4,626	4,621	4,642	4,651
514,258	500,195	497,183	507,118
\$ 410	\$ 466	\$ 477	\$ 478
\$ 0.80	\$ 0.93	\$ 0.96	\$ 0.94
12.2%	12.9%	11.8%	14.7%
451,584	435,473	438,609	432,521
\$ 1,725	\$ 1,752	\$ 1,969	\$ 2,119
\$ 3.82	\$ 4.02	\$ 4.49	\$ 4.90
\$ 3.02	\$ 3.09	\$ 3.53	\$ 3.96
\$ (34)	\$ (66)	\$ 183	\$ 304
\$ (171)	\$ (34)	\$ 184	\$ 299

**BRAINERD PUBLIC UTILITIES  
BRAINERD, MINNESOTA  
WASTEWATER TREATMENT DEPARTMENT STATISTICS  
FOR THE TEN YEARS ENDED DECEMBER 31, 2004 THROUGH 2013  
(UNAUDITED)**

	2004	2005	2006	2007	2008	2009
<b>Wastewater Treatment Capital Assets</b>						
In Service (Thousands)	\$ 12,868	\$ 13,042	\$ 13,179	\$ 13,223	\$ 13,501	\$ 14,299
Investment Per Account	\$ 2,888	\$ 2,850	\$ 2,851	\$ 2,867	\$ 2,958	\$ 3,134
Investment Per Dollar of Wastewater Treatment Revenue	\$ 12.44	\$ 11.24	\$ 9.05	\$ 7.90	\$ 6.55	\$ 6.76
<b>Accumulated Depreciation (Thousands)</b>	\$ 6,724	\$ 7,061	\$ 7,801	\$ 8,559	\$ 9,076	\$ 10,023
Percent of Capital Assets	52.3%	54.1%	59.2%	64.7%	67.2%	70.1%
Annual Depreciation (Thousands)	\$ 368	\$ 393	\$ 739	\$ 770	\$ 763	\$ 1,056
Percent of Annual Depreciation to Average Capital Assets in Service	2.8%	3.0%	5.6%	5.8%	5.7%	7.6%
<b>Number of Accounts (Year-End)</b>	4,456	4,576	4,622	4,612	4,564	4,562
<b>Cost of Wastewater Treatment</b>						
Flow in Gallons Processed (Thousands)	830,959	887,076	858,830	751,025	762,208	765,652
Total Treatment Cost (Thousands)	\$ 435	\$ 405	\$ 402	\$ 505	\$ 506	\$ 567
Cost Per Thousand Gallons Processed	\$ 0.52	\$ 0.46	\$ 0.47	\$ 0.67	\$ 0.66	\$ 0.74
Percent of System Loss	26.3%	29.8%	24.9%	17.2%	15.7%	16.1%
<b>Wastewater Treatment Revenue</b>						
Flow in Gallons Sold (Thousands)	612,370	622,729	644,675	621,604	642,762	642,413
Wastewater Treatment Utility Revenue (Thousands)	\$ 1,034	\$ 1,160	\$ 1,457	\$ 1,673	\$ 2,062	\$ 2,115
Per Thousand Gallons Sold	\$ 1.69	\$ 1.86	\$ 2.26	\$ 2.69	\$ 3.21	\$ 3.29
Gross Margin Per Thousand Gallons Sold	\$ 1.17	\$ 1.40	\$ 1.79	\$ 2.02	\$ 2.55	\$ 2.55
<b>Operating Income (Loss) (Thousands)</b>	\$ (255)	\$ (126)	\$ (247)	\$ (271)	\$ 95	\$ (142)
<b>Change in Net Position (Thousands)</b>	\$ (218)	\$ (79)	\$ (183)	\$ 300	\$ 927	\$ 657

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

2010	2011	2012	2013
\$ 26,975	\$ 35,931	\$ 36,329	\$ 36,325
\$ 5,901	\$ 7,862	\$ 7,908	\$ 7,892
\$ 12.34	\$ 15.91	\$ 15.77	\$ 15.93
\$ 5,402	\$ 4,401	\$ 5,708	\$ 7,046
20.0%	12.2%	15.7%	19.4%
\$ 986	\$ 1,644	\$ 1,374	\$ 1,384
4.8%	5.2%	3.8%	3.8%
4,571	4,570	4,594	4,603
675,928	723,764	725,787	677,322
\$ 638	\$ 1,016	\$ 975	\$ 1,082
\$ 0.94	\$ 1.40	\$ 1.34	\$ 1.60
16.1%	24.7%	24.6%	19.7%
567,138	545,138	547,053	544,183
\$ 2,186	\$ 2,258	\$ 2,304	\$ 2,281
\$ 3.85	\$ 4.14	\$ 4.21	\$ 4.19
\$ 2.91	\$ 2.74	\$ 2.87	\$ 2.59
\$ (101)	\$ (1,079)	\$ (706)	\$ (843)
\$ 840	\$ (402)	\$ (2)	\$ (482)

**THIS PAGE INTENTIONALLY LEFT BLANK**



## OTHER REPORTS SECTION



CliftonLarsonAllen

CliftonLarsonAllen LLP  
CLAAconnect.com

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

Brainerd Public Utilities Commission  
Brainerd Public Utilities  
Brainerd, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise BPU's basic financial statements, and have issued our report date thereon dated May 16, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be a significant deficiency, 2013-001.



An independent member of Nexia International

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BPU's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

BPU's Response to Finding

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

Purpose of this Report

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



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 16, 2014



CliftonLarsonAllen LLP  
CLAconnect.com

## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Brainerd Public Utilities Commission  
Brainerd Public Utilities  
Brainerd, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise BPU's basic financial statements as listed in the table of contents have issued our report thereon dated May 16, 2014.

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

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

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

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

**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 16, 2014



An independent member of Nexia International

**BRAINERD PUBLIC UTILITIES  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
DECEMBER 31, 2013**

**SIGNIFICANT DEFICIENCY**

2013-001 CONTROLS OVER INVENTORY ACTIVITY

**Criteria:** As part of sound financial controls over inventory activity, staff should fully reconcile inventory records to physical inventory on a monthly basis.

**Condition:** Although staff has a process to periodically reconcile purchases and uses of inventory relating to various projects, this is not always completed on a regular basis and there is difficulty assigning items used to specific projects.

**Cause:** Past practice and policy has not required an accurate and complete reconciliation.

**Effect:** Absence of a process to complete an accurate reconciliation of inventory fully each month diminishes the ability of BPU's management to prevent or detect fraud or misappropriation of assets in a timely manner and to provide timely and accurate reporting of financial information.

**Recommendation:** We recommend that BPU establish a process to fully reconcile its inventory records with the general ledger inventory activity each month or consider implementation of a perpetual inventory system.

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