

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA**

FINANCIAL REPORT

DECEMBER 31, 2017 AND 2016

**BRAINERD PUBLIC UTILITIES
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DECEMBER 31, 2017 AND 2016**

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INTRODUCTORY SECTION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ORGANIZATIONAL DATA
DECEMBER 31, 2017**

COMMISSION

Term Expires
December 31,

President	Dolly Matten	2019
Vice President	William Wroolie	2021
Commission Member	Lucy Nesheim	2017
Commission Member	Mark O'Day	2020
Commission Member	Don Samuelson	2018

ADMINISTRATION

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

FINANCIAL SECTION



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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise BPU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BPU as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the BPU's basic financial statements. The departmental combining financial statements, the schedule of capital assets and accumulated depreciation and the other information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Information

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

Brainerd Public Utilities Commission
Brainerd Public Utilities

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018, on our consideration of BPU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of BPU's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BPU's internal control over financial reporting and compliance.

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

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 30, 2018

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**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2017 AND 2016
(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, 2017 and 2016. This discussion and analysis should be read in conjunction with BPU's financial statements and accompanying notes, which follow this section.

Financial Highlights

- BPU's combined net position from 2016 to 2017 increased \$1.7 million, or 4.0%, from \$43.5 million to \$45.2 million and from 2015 to 2016 decreased \$0.1 million, or 0.3%, from \$43.6 million to \$43.5 million.
- Combined total assets and deferred outflow of resources from 2016 to 2017 decreased \$0.7 million, or 0.8%, from \$90.1 to \$89.4 million and from 2015 to 2016 increased \$6.9 million, or 8.2%, from \$83.2 million to \$90.1 million.
- Combined total liabilities from 2016 to 2017 decreased \$2.6 million, or 5.7%, from \$46.2 to \$43.6 million and from 2015 to 2016 increased \$6.7 million, or 17.0%, from \$39.5 million to \$46.2 million.
- Combined total operating revenue from 2016 to 2017 increased \$1.7 million, or 7.1%, from \$23.2 million to \$24.9 million and from 2015 to 2016 increased \$0.2 million, or 0.8%, from \$23.0 million to \$23.2 million.
- Combined total operating expenses from 2016 to 2017 increased \$1.0 million, or 4.1%, from \$23.3 million to \$24.3 million and from 2015 to 2016 increased \$1.5 million, or 6.8% from \$21.8 million to \$23.3 million.

Overview of the Financial Statements

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

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

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

Required Financial Statements

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

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

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

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2017 AND 2016
(UNAUDITED)**

Required Financial Statements (Continued)

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

Financial Analysis

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

Net capital assets represent 72.1% and 71.5% of total assets and deferred outflows of resources as of December 31, 2017 and 2016, respectively. Long-term liabilities represent 42.4% and 44.3% of total liabilities, net position, and deferred inflows of resources as of December 31, 2017 and 2016, respectively. Total net position increased 4.0% and decreased .3% as of December 31, 2017 and 2016, respectively.

The largest portion of BPU's net position (64.5%), at December 31, 2017, 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 2017, \$8.1 million or 18.0% of BPU's net position represents resources that are restricted. The remaining balance of unrestricted net position of \$7.9 million or 17.5% may be used to meet BPU ongoing obligations.

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

Combined total operating revenue from 2016 to 2017 increased \$1.7 million, or 7.1%, from \$23.2 million to \$24.9 million and from 2015 to 2016 increased \$0.2 million, or 0.8%, from \$23.0 million to \$23.2 million.

Combined total operating expenses from 2016 to 2017 increased \$1.0 million, or 4.1%, from \$23.3 million to \$24.3 million and from 2015 to 2016 increased \$1.5 million, or 6.8% from \$21.8 million to \$23.3 million. The significant increases for 2017 were related to purchased power of \$0.3 million and depreciation of \$0.3 million. Increase in purchased power of \$1.2 million for 2016 was the most significant reason for the increase in total operating expenses.

Net nonoperating revenue (expense) from 2016 to 2017 increased \$0.453 million, or 132.0%, from \$0.342 million to \$0.795 million and from 2015 to 2016 increased \$0.03 million, or 10.0% from \$0.311 to \$0.342 million. The significant changes for 2017 were for local option sales tax received from the City of Baxter of \$0.3 million and gain on disposal of assets of \$.08 million. The significant change for 2016 was for the change in interest income from investments due to change in fair value at the end of the year.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2017 AND 2016
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Net Position

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

	December 31,			Change	
	2017	2016	2015	2017 to 2016	2016 to 2015
Net Capital Assets	\$ 64,454	\$ 64,403	\$ 59,826	\$ 51	\$ 4,577
Restricted Assets	10,341	11,679	10,875	(1,338)	804
Current Assets	13,390	11,924	11,762	1,466	162
Other Assets	242	251	260	(9)	(9)
Total Assets	88,427	88,257	82,723	170	5,534
Deferred Outflows of Resources	968	1,832	502	(864)	1,330
Total Assets and Deferred Outflows	\$ 89,395	\$ 90,089	\$ 83,225	\$ (694)	\$ 6,864
Current Liabilities	\$ 5,689	\$ 6,271	\$ 4,886	\$ (582)	\$ 1,385
Long-Term Liabilities	37,880	39,920	34,608	(2,040)	5,312
Total Liabilities	43,569	46,191	39,494	(2,622)	6,697
Net Investment in Capital Assets	29,174	26,744	26,628	2,430	116
Restricted Net Position	8,112	10,113	9,293	(2,001)	820
Unrestricted Net Position	7,914	6,613	7,668	1,301	(1,055)
Total Net Position	45,200	43,470	43,589	1,730	(119)
Deferred Inflows of Resources	626	428	142	198	286
Total Liabilities, Net Position and Deferred Inflows	\$ 89,395	\$ 90,089	\$ 83,225	\$ (694)	\$ 6,864

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2017 AND 2016
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position

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

	2017	2016	Dollar Change	Percentage Change
OPERATING REVENUES				
Electric	\$ 19,826	\$ 18,428	\$ 1,398	7.6%
Water	2,402	2,299	103	4.5%
Wastewater Treatment	2,670	2,510	160	6.4%
Total Operating Revenue	24,898	23,237	1,661	7.1%
OPERATING EXPENSES				
Production and Treatment	2,310	2,189	121	5.5%
Purchased Power	12,754	12,475	279	2.2%
Distribution and Collection	2,533	2,421	112	4.6%
Administration	2,655	2,490	165	6.6%
Depreciation and Amortization	4,026	3,752	274	7.3%
Total Operating Expenses	24,278	23,327	951	4.1%
OPERATING INCOME (LOSS)	620	(90)	710	-788.9%
NONOPERATING REVENUE (EXPENSE)				
Interest Income - Investments	151	121	30	24.8%
Interest Income - Notes Receivabl	195	205	(10)	-4.9%
Bond Premium	69	44	25	56.8%
Interest Expense	(1,086)	(1,119)	33	-2.9%
Local Option Sales Tax	1,315	978	337	34.5%
Federal Grant Revenue -				
Build America Bond	122	138	(16)	-11.6%
Bond Issuance Costs	(102)	(79)	(23)	0.0%
Gain (Loss) on Disposal of Capital Assets	131	54	77	0.0%
Net Nonoperating Revenue	795	342	453	132.5%
INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	1,415	252	1,163	461.5%
CONTRIBUTED CAPITAL	988	310	678	0.0%
TRANSFERS TO THE CITY	(673)	(681)	8	-1.2%
CHANGE IN NET POSITION	1,730	(119)	1,849	-1553.8%
Net Position - Beginning	43,470	43,589	(119)	-0.3%
NET POSITION - ENDING	<u>\$ 45,200</u>	<u>\$ 43,470</u>	<u>\$ 1,730</u>	4.0%

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2017 AND 2016
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position

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

	2016	2015	Dollar Change	Percentage Change
OPERATING REVENUES				
Electric	\$ 18,428	\$ 18,409	\$ 19	0.1%
Water	2,299	2,235	64	2.9%
Wastewater Treatment	2,510	2,400	110	4.6%
Total Operating Revenue	23,237	23,044	193	0.8%
OPERATING EXPENSES				
Production and Treatment	2,189	1,973	216	10.9%
Purchased Power	12,475	11,287	1,188	10.5%
Distribution and Collection	2,421	2,449	(28)	-1.1%
Administration	2,490	2,545	(55)	-2.2%
Depreciation and Amortization	3,752	3,583	169	4.7%
Total Operating Expenses	23,327	21,837	1,490	6.8%
OPERATING INCOME (LOSS)	(90)	1,207	(1,297)	-107.5%
NONOPERATING REVENUE (EXPENSE)				
Interest Income - Investments	121	204	(83)	-40.7%
Interest Income - Notes Receivabl	205	222	(17)	-7.7%
Bond Premium	44	27	17	63.0%
Interest Expense	(1,119)	(1,195)	76	-6.4%
Local Option Sales Tax	978	907	71	7.8%
Federal Grant Revenue - Build America Bond	138	141	(3)	-2.1%
Bond Issuance Costs	(79)	-	(79)	0.0%
Gain (Loss) on Disposal of Capital Assets	54	5	49	0.0%
Net Nonoperating Revenue	342	311	31	10.0%
INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	252	1,518	(1,266)	-83.4%
CONTRIBUTED CAPITAL	310	-	310	0.0%
TRANSFERS TO THE CITY	(681)	(596)	(85)	14.3%
CHANGE IN NET POSITION	(119)	922	(1,041)	-112.9%
Net Position - Beginning	43,589	42,667	922	2.2%
NET POSITION - ENDING	<u>\$ 43,470</u>	<u>\$ 43,589</u>	<u>\$ (119)</u>	-0.3%

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2017 AND 2016
(UNAUDITED)**

Capital Assets

Net Capital Assets – Table 3, shows changes in net capital assets from 2015 to 2017. Total net capital assets as of December 31, 2017 and 2016 were \$64.5 million and \$64.4 million, respectively.

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

	December 31,			Change	
	2017	2016	2015	2017 to 2016	2016 to 2015
Electric Department					
Generation System	\$ 6,137	\$ 4,505	\$ 4,684	\$ 1,632	\$ (179)
Distribution System	15,574	15,838	16,077	(264)	(239)
Street and Security Lighting System	241	260	275	(19)	(15)
Water Department					
Production Facilities	1,525	1,510	1,605	15	(95)
Distribution System	12,854	7,159	7,505	5,695	(346)
Wastewater Treatment Department					
Lift Station Facilities	2,134	998	1,100	1,136	(102)
Treatment Facilities	21,779	23,052	24,262	(1,273)	(1,210)
Land and Land Improvements	1,715	1,690	1,609	25	81
Machinery and Equipment	441	537	419	(96)	118
Furniture and Fixtures	90	76	68	14	8
Transportation Equipment	803	723	627	80	96
Service Center	1,067	1,168	1,303	(101)	(135)
Construction in Progress	94	6,887	292	(6,793)	6,595
Total	\$ 64,454	\$ 64,403	\$ 59,826	\$ 51	\$ 4,577

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

	2017	2016	2015
Additions and Transfers to Capital Assets Being Depreciated (By Department)			
Electric	\$ 3,037	\$ 1,242	\$ 3,413
Water	6,440	333	617
Wastewater Treatment	1,294	75	89
General Plant	121	72	69
	10,892	1,722	4,188
Additions to Construction in Progress	2,230	7,320	2,089
Transfers from Construction in Progress to Capital Assets Being Depreciated	(9,023)	(725)	(2,795)
Deletions and Transfers	(35)	-	-
Normal Annual Depreciation	(4,013)	(3,740)	(3,557)
Total	\$ 51	\$ 4,577	\$ (75)

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2017 AND 2016
(UNAUDITED)**

Capital Assets (Continued)

Major capital asset transactions for 2017 and 2016 include the following:

	2017	2016
<u>Electric</u>		
Distribution Transformers and Metering Purchased	\$ 372,500	\$ 259,900
Expansion of Distribution Feeder System	308,900	336,800
Distribution System Improvements	312,400	314,300
Other Equipment including Lighting	7,600	30,300
Bucket and Service Trucks	202,800	56,900
Mapping and OMS Software	-	68,600
Hydroelectric Dam Improvements	1,833,300	59,100
<u>Water</u>		
Purchase of Meters and Valves	19,900	26,400
Distribution System Improvements	6,184,700	111,000
Backup Cat Generator	219,700	-
Other Improvements	15,800	52,500
Backhoe	-	110,300
<u>Wastewater</u>		
Lift Station Improvements	1,254,600	-
Treatment Facility Improvements	39,200	59,600
<u>General Plant</u>		
Parking Lot Improvements	47,500	-
Communication System	37,900	-
Service Center Improvements	35,800	-
Other Improvements	-	34,300
Compact Track Loader	-	46,100
GIS Equipment	-	55,800
SCADA System Upgrade	-	55,800
Service Trucks	-	44,400
<u>Construction in Progress</u>		
Hydroelectric FERC Relicensing	34,900	-
Other Improvements	58,600	17,900
RF Metering	25,300	72,200
Bucket Truck	-	202,800
LED Lighting - CIP Rebates	-	(22,100)
Hydroelectric Dam Apron Repair Project	1,234,800	424,600
Hydroelectric Dam Electric System Improvements	33,500	33,500
Water Plant Backup Generator	31,700	198,700
Airport Extension Water and Lift Station Improvements	472,000	6,392,800
Distribution System Improvements	338,700	-
Total	\$ 13,122,100	\$ 9,042,500

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2017 AND 2016
(UNAUDITED)**

Long-Term Debt

The following table presents the change in the outstanding debt of BPU from 2015 to 2017. The total net long-term debt at December 31, 2017, 2016, and 2015 was \$37.9 million, \$39.9 million, and \$34.6 million, respectively. The Series 2017A Bonds were issued to refund the 2007A bonds for \$4.305 million and improvements to hydroelectric dam for \$1.73 million. The Series 2016A Bonds were issued for water and wastewater lift station improvements to the airport. The Series 2016B Equipment Certificates of Indebtedness were issued for purchase of bucket truck for electric department and the backup generator at the water plant. In 2015 the net pension liability of \$2.8 million was recorded and was increased to \$4.2 million in 2016. The capital lease payable is related to acquisition of billing inserter machine in 2015 and vehicles in 2016.

	(In Thousands of Dollars)				
	Balance as of December 31,			Increase (Decrease)	
	2017	2016	2015	2017 to 2016	2016 to 2015
Utility Revenue Bonds					
Series 2007A	\$ -	\$ 5,385	\$ 6,160	\$ (5,385)	\$ (775)
Series 2014A	5,025	5,385	5,745	(360)	(360)
Series 2015A	1,380	1,540	1,700	(160)	(160)
Series 2016A	5,754	6,008	-	(254)	6,008
Series 2016B (Equip. Certs.)	321	402	-	(81)	402
Series 2017A	6,035	-	-	6,035	-
G.O. Revenue Notes/Bonds					
Series 2008	-	217	429	(217)	(212)
Series 2009 - Build America	16,978	18,247	19,476	(1,269)	(1,229)
Capital Lease Payable	80	107	53	(27)	54
Compensated Absences	714	687	648	27	39
Net Pension Liability	3,460	4,222	2,814	(762)	1,408
Revenue Bond Premium	813	882	313	(69)	569
OPEB Obligation	-	5	17	(5)	(12)
Total Long-Term Debt	40,560	43,087	37,355	(2,527)	5,732
Less: Current Portion					
Utility Revenue Bonds					
Series 2007A	-	800	775	(800)	25
Series 2014A	365	360	360	5	-
Series 2015A	165	160	160	5	-
Series 2016A	304	254	-	50	254
Series 2016B	78	80	-	(2)	80
Series 2017A	430	-	-	430	-
G.O. Revenue Notes/Bonds					
Series 2008	-	217	212	(217)	5
Series 2009 - Build America	1,310	1,269	1,229	41	40
Capital Lease Payable	28	27	11	1	16
Total Current Portion of Long-Term Debt	2,680	3,167	2,747	(487)	420
Net Long-Term Debt	\$ 37,880	\$ 39,920	\$ 34,608	\$ (2,040)	\$ 5,312

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2017 AND 2016
(UNAUDITED)**

Budgetary Highlights

The BPU Commission adopts an annual Operating Budget and a Capital Improvement Budget. Because of its enterprise nature, the budgets are not operated as statutory budgets. The Commission and Utilities staff review budget results monthly and the budget is used as a financial management tool.

A summary of the 2017 Operating Budget Analysis and the 2018 Operating Budget approved by the Commission is presented as follows:

	(In Thousands of Dollars)			
	2017 Budget	2017 Actual	Favorable (Unfavorable) Variance	2018 Budget
Utility Operating Revenue	\$ 23,536	\$ 24,364	\$ 828	\$ 24,946
Other Operating Revenue	325	534	209	384
Total Operating Revenue	23,861	24,898	1,037	25,330
Purchased Power	12,672	12,754	(82)	13,008
Other Operating Expense	7,058	7,498	(440)	8,078
Depreciation and Amortization Expense	3,718	4,026	(308)	4,139
Total Operating Expense	23,448	24,278	(830)	25,225
Operating Income	413	620	207	105
Net Nonoperating Revenue	366	795	429	446
Income Before Operating Transfers to City	779	1,415	636	551
Contributed Capital	-	988	988	-
Operating Transfers to the City	(697)	(673)	24	(674)
Change in Net Position	\$ 82	\$ 1,730	\$ 1,648	\$ (123)

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, Brainerd, MN 56401 or by email at twicklund@bpu.org or by phone at (218)825-3220.

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**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016**

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CAPITAL ASSETS		
In Service	\$ 105,193,134	\$ 94,677,054
Construction in Progress	93,886	6,887,602
Total Investment in Capital Assets	105,287,020	101,564,656
Less: Accumulated Depreciation	(40,832,596)	(37,161,383)
Net Capital Assets	64,454,424	64,403,273
RESTRICTED ASSETS		
Cash and Investments	4,614,503	5,451,897
Bonds and Notes Receivable	5,659,334	6,154,667
Notes Receivable - Interest	66,700	72,500
Total Restricted Assets	10,340,537	11,679,064
CURRENT ASSETS		
Cash and Investments	6,992,343	6,401,569
Accounts Receivable	4,062,438	2,933,580
Interest Receivable	23,605	21,525
Due from the City of Brainerd	1,001,887	1,552,246
Inventory	1,149,430	869,366
Prepaid Expenses	160,387	145,269
Total Current Assets	13,390,090	11,923,555
OTHER ASSETS		
Service Territory Acquisitions, Net of Accumulated Amortization	241,621	251,355
Total Assets	88,426,672	88,257,247
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	968,684	1,831,675
Total Assets and Deferred Outflows of Resources	\$ 89,395,356	\$ 90,088,922

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2017 AND 2016**

	2017	2016
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
NET POSITION		
Net Investment in Capital Assets	\$ 29,174,203	\$ 26,743,813
Restricted for Debt Service	8,112,081	10,113,358
Unrestricted	7,913,981	6,612,392
Total Net Position	45,200,265	43,469,563
LONG-TERM LIABILITIES		
Revenue Bonds Payable	16,929,800	16,743,600
General Obligation Equipment Certificates of Indebtedness	242,970	321,467
General Obligation Build America Bonds Payable	15,668,000	16,978,000
Capital Lease Payable	52,003	79,919
Compensated Absences	713,739	687,590
Net Pension Liability	3,460,092	4,222,142
Revenue Bond Premium	813,235	882,101
Other Postemployment Benefit Obligation	-	5,509
Total Long-Term Liabilities	37,879,839	39,920,328
CURRENT LIABILITIES		
Accounts and Contracts Payable	1,699,258	1,856,916
Electric Utility Revenue Bonds Payable	1,263,800	1,574,200
General Obligation Equipment Certificates of Indebtedness	78,498	80,368
General Obligation Sewer Revenue Notes Payable	-	217,000
General Obligation Build America Bonds Payable	1,310,000	1,269,000
Capital Lease Payable	27,915	26,930
Accrued Expenses		
Salaries and Withholding Taxes	135,056	121,077
Sales Taxes	81,803	72,430
Current Liabilities Payable from Restricted Assets:		
Bond Interest	311,200	371,300
Payable to City of Brainerd	251,217	186,012
Conservation Incentive Program Payable	217,168	217,865
Customer Deposits	312,904	277,504
Total Current Liabilities	5,688,819	6,270,602
Total Liabilities	43,568,658	46,190,930
DEFERRED INFLOWS OF RESOURCES		
Pension Related	626,433	428,429
Total Net Position, Liabilities and Deferred Inflows of Resources	\$ 89,395,356	\$ 90,088,922

BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OPERATING REVENUES	2017	2016
Utility Revenues		
Residential	\$ 8,185,469	\$ 7,731,833
Commercial	9,518,588	8,811,968
Large Commercial	5,359,071	5,133,161
City of Brainerd	461,636	432,827
Internal Use	838,485	774,885
Total Utility Revenues	24,363,249	22,884,674
Other Operating Revenues		
Penalties	167,066	155,198
Other	367,400	196,820
Total Other Operating Revenues	534,466	352,018
Total Operating Revenues	24,897,715	23,236,692
OPERATING EXPENSES		
Generation, Production, and Treatment		
Salaries and Wages	896,865	848,262
Purchased Services	734,287	660,294
Supplies and Maintenance	149,233	154,870
Employee Benefits	469,734	472,200
Other Charges	59,738	53,386
Total Generation, Production, and Treatment Expenses	2,309,857	2,189,012
Purchased Power	12,754,343	12,474,887
Distribution and Collection		
Salaries and Wages	1,346,716	1,276,390
Purchased Services	461,542	422,956
Supplies and Maintenance	203,154	211,858
Employee Benefits	481,961	470,182
Other Charges	39,903	39,979
Total Distribution and Collection Expenses	2,533,276	2,421,365
Administration		
Salaries and Wages	1,058,720	992,369
Purchased Services	456,478	439,963
Supplies and Maintenance	95,997	91,625
Insurance and Bonds	251,312	192,027
Employee Benefits	523,463	543,466
Other Charges	268,679	230,615
Total Administration Expenses	2,654,649	2,490,065
Depreciation and Amortization	4,025,469	3,751,558
Total Operating Expenses	\$ 24,277,594	\$ 23,326,887

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
OPERATING INCOME (LOSS)	\$ 620,121	\$ (90,195)
NONOPERATING REVENUE (EXPENSE)		
Interest Income - Investments	150,736	120,724
Interest Income - Notes Receivable	195,055	204,735
Bond Premium	68,866	44,260
Interest Expense	(1,086,409)	(1,118,421)
Local Option Sales Tax	1,315,565	977,969
Federal Grant Revenue - Build America Bond	122,452	138,370
Bond Issuance Costs	(102,462)	(79,424)
Gain on Disposal of Capital Assets	131,033	53,661
Net Nonoperating Revenue	794,836	341,874
INCOME BEFORE OPERATING TRANSFERS	1,414,957	251,679
CONTRIBUTED CAPITAL	988,568	310,000
TRANSFERS TO THE CITY	(672,823)	(681,227)
CHANGE IN NET POSITION	1,730,702	(119,548)
Net Position - Beginning	43,469,563	43,589,111
NET POSITION - ENDING	\$ 45,200,265	\$ 43,469,563

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 23,768,218	\$ 22,946,825
Cash Payments to Employees for Services	(3,262,173)	(3,056,328)
Cash Payments to Other Suppliers of Goods or Services	(16,562,701)	(15,876,533)
Net Cash Provided by Operating Activities	3,943,344	4,013,964
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Primary Government	(607,618)	(656,243)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to Utility Plant	(3,032,082)	(8,032,737)
Proceeds from Local Option Sales Tax	1,303,275	979,415
Principal Paid on Long-Term Debt	(7,645,200)	(2,736,000)
Interest Paid on Long-Term Debt	(1,317,837)	(1,161,205)
Proceeds from Revenue Bonds	6,035,000	6,007,800
Proceeds from Equipment Certificates	-	401,835
Principal Received on Notes Receivable	495,333	480,333
Federal Grant Revenue - Build America Bond	125,552	140,770
Principal Paid on Capital Lease	(26,931)	(21,921)
Proceeds from Sale of Utility Plant	131,033	53,661
Net Cash Used by Capital and Related Financing Activities	(3,931,857)	(3,888,049)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	349,511	332,088
Purchase of Investments	(1,453,989)	(3,782,939)
Redemption of Investments	275,471	4,760,547
Net Cash Provided (Used) by Investing Activities	(829,007)	1,309,696
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,425,138)	779,368
Cash and Cash Equivalents - Beginning	4,880,013	4,100,645
CASH AND CASH EQUIVALENTS - ENDING	\$ 3,454,875	\$ 4,880,013

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 620,121	\$ (90,195)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	4,025,469	3,751,558
Revenue Reduced for Uncollectible Accounts	38,351	34,575
(Increase) Decrease in Assets:		
Accounts Receivable	(1,173,573)	(250,151)
Prepaid Expenses	(15,118)	(52,363)
Inventories	(280,064)	78,142
Change in Deferred Outflows of Resources - Pension Related	862,991	(1,329,890)
Increase (Decrease) in Liabilities:		
Accounts Payable	350,518	168,554
Accrued Liabilities	58,752	53,944
Conservation Incentive Program Payable	(697)	(72,721)
Accrued Compensated Absences	26,149	39,754
Other Postemployment Benefit Obligation	(5,509)	(11,828)
Change in Net Pension Liability	(762,050)	1,408,034
Change in Deferred Inflows of Resources - Pension Related	198,004	286,551
Net Cash Provided by Operating Activities	\$ 3,943,344	\$ 4,013,964
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and Investments - Current Assets	\$ 6,992,343	\$ 6,401,569
Cash and Investments - Restricted Assets	4,614,503	5,451,897
Cash and Investments - Balance Sheets	11,606,846	11,853,466
Less: Investments not Meeting the Definition of Cash Equivalents	8,151,971	6,973,453
Cash and Cash Equivalents - Ending	\$ 3,454,875	\$ 4,880,013
NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Utility Plant on Account	\$ (215,482)	\$ (724,267)
Net Increase (Decrease) in Fair Value of Investments	(30,471)	(36,608)
Purchase of Assets on Lease	-	75,907
Capital Contribution of Utility Plant	988,568	-

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**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Reporting Entity

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

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

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

Basis of Accounting

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

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

Proprietary funds distinguish operating revenues and expenses from other items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of BPU is charges to customers for sales of electricity, water, and wastewater treatment. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as other revenues and expenses. When both restricted and unrestricted resources are available for use, it is BPU's policy to use restricted resources first, and then unrestricted resources as they are needed.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, including cost of labor and materials on self-constructed assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by BPU for the years ended December 31, 2017 and 2016 was \$1,086,409 and \$1,118,421, respectively, and the amount capitalized for the same time periods was \$160,303 and \$96,500, respectively.

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

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

Deposits and Investments

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

Receivables/Payables

Outstanding balances between BPU and the primary government are reported as due from/to the City. An allowance for doubtful accounts is recorded monthly based on historical experience and management's evaluation of receivables at the end of year. Accounts are written off when deemed uncollectible. The balance of allowance for doubtful accounts as of December 31, 2017 and 2016 was zero for both years.

Inventory

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

Restricted Assets

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Compensated Absences

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

Customer Deposits

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

Long-Term Liabilities

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

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net pension of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Revenue Recognition

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Electric Power Costs

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

Net Position

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

NOTE 2 CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Electric	\$ 37,214,921	\$ 3,037,457	\$ 144,915	\$ 40,107,463
Water	16,748,651	6,439,993	26,452	23,162,192
Wastewater Treatment General Plant	34,979,059	1,293,785	149,261	36,123,583
Construction in Progress	5,734,423	121,239	55,766	5,799,896
	6,887,602	2,229,623	9,023,339	93,886
	101,564,656	13,122,097	9,399,733	105,287,020
Accumulated Depreciation	(37,161,383)	(4,012,872)	(341,659)	(40,832,596)
Net Capital Assets	<u>\$ 64,403,273</u>	<u>\$ 9,109,225</u>	<u>\$ 9,058,074</u>	<u>\$ 64,454,424</u>

A summary of capital asset activity for the year ended December 31, 2016 is as follows:

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

Capital assets not being depreciated totaled \$1,669,549 and \$1,613,914 at December 31, 2017 and 2016, respectively.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 3 RESTRICTED ASSETS

Cash and Investments

At December 31, 2017 and 2016, restricted cash and investments consisted of the following:

	2017	2016
Customer Deposits	\$ 312,904	\$ 277,504
City of Brainerd Contribution	251,217	186,012
Conservation Incentive Program	217,168	217,865
Electric Utility Revenue Bonds Debt Service Reserve	1,134,545	1,563,769
General Obligation Revenue Notes and Bonds Debt Service Reserve	2,698,669	3,206,747
Total Restricted Cash and Investments	<u>\$ 4,614,503</u>	<u>\$ 5,451,897</u>

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

Notes Receivable

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

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

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

Notes Receivable (Continued)

Note receivable activity for the year ended December 31, 2017, is as follows:

	<u>Note No.1</u>	<u>Note No.2</u>	<u>Total</u>
Beginning Balance	\$ 72,333	\$ 6,082,334	\$ 6,154,667
Payments Received	(72,333)	(423,000)	(495,333)
Ending Balance	<u>\$ -</u>	<u>\$ 5,659,334</u>	<u>\$ 5,659,334</u>

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

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

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, 2017 and 2016 of \$66,700 and \$72,500, respectively, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the years ended December 31, 2017 and 2016 was \$195,055 and \$204,735, respectively.

NOTE 4 DEPOSITS AND INVESTMENTS

Cash and investments are presented at December 31, 2017 and 2016, as follows:

	<u>2017</u>	<u>2016</u>
Restricted Cash and Investments	\$ 4,614,503	\$ 5,451,897
Current Cash and Investments	6,992,343	6,401,569
Total	<u>\$ 11,606,846</u>	<u>\$ 11,853,466</u>

Cash and investments at December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Petty Cash	\$ 1,500	\$ 1,500
Deposits	3,453,375	4,878,513
Investments	8,151,971	6,973,453
Total	<u>\$ 11,606,846</u>	<u>\$ 11,853,466</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

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

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of a depository financial institution, BPU will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2017, there were no deposits subject to custodial risk.

BPU follows Minnesota Statutes which require that all deposits be protected by insurance, surety bond or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Authorized collateral includes certain U.S. government securities, state or local institution other than that furnishing the collateral. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

BPU's deposits in financial institutions at December 31, 2017 were entirely covered by federal depository insurance or collateral in accordance with Minnesota Statutes.

Investments

Under the provisions of the City of Brainerd's investment policy revised by Council on February 6, 2017 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, 2017 AND 2016**

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, 2017 by maturity:

Investment Type	Investment Maturities (in Years)			Fair Value	% of Investments
	Less Than 1	1-5	More Than 5		
Negotiable CDs	\$ 1,670,358	\$ 1,711,135	\$ 948,643	\$ 4,330,136	53.1%
FNMA	-	288,147	1,486,943	1,775,090	21.8%
FHLMC	-	-	967,756	967,756	11.9%
Commercial Paper	1,078,989	-	-	1,078,989	13.2%
Total	<u>\$ 2,749,347</u>	<u>\$ 1,999,282</u>	<u>\$ 3,403,342</u>	<u>\$ 8,151,971</u>	<u>100.0%</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, 2017 are as follows:

Investment Type	S & P Rating
Negotiable CDs	NA
FNMA	AA+
FHLMC	AA+
Commercial Paper	A1

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, 2017, are disclosed above.

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

Fair Value Measurements

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Measurements (Continued)

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

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

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

The categorization of financial assets at December 31, 2017 and 2016, consisted of the following:

<u>Type</u>	<u>Level</u>	<u>2017</u>	<u>2016</u>
Negotiable CDs	2	\$ 4,330,136	\$ 4,243,469
FNMA Securities	2	1,775,090	1,772,478
FHLMC Securities	2	967,756	957,506
Commercial Paper	1	1,078,989	-
Total Investments		<u>\$ 8,151,971</u>	<u>\$ 6,973,453</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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, 2017 and 2016, BPU owed the City the following:

	2017	2016
Monthly Operating Contribution	\$ 55,103	\$ 54,942
Reimbursement of Other Costs	39,096	5,969
Wastewater Collection and Storm Sewer Charges	157,018	125,101
Total	\$ 251,217	\$ 186,012

NOTE 6 LONG-TERM DEBT

On September 1, 2007, the City of Brainerd, on behalf of BPU, issued \$11,140,000 in Electric Utility Revenue Bonds, Series 2007A, with interest rates from 4.0% to 4.375%, maturing in December 2022, for electric distribution system improvements, including the purchase of three 47.5 kV transformers at the main substation. These bonds were refunded on December 1, 2017 with the issuance of the Electric Utility Revenue and Refunding Bonds, Series 2017A.

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 matured August 20, 2017.

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

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

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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

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

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

On October 18, 2017, the City of Brainerd, on behalf of BPU, issued \$6,035,000 in Electric Utility Revenue and Refunding Bonds, Series 2017A, with interest rate of 2.25%, maturing in December 2027, for major capital improvements to hydroelectric dam in the amount of \$1,730,000 and for the refunding of the Electric Utility Revenue Bonds, Series 2007A in the amount of \$4,305,000.

Electric Utility Revenue Bonds, Series 2014A and 2017A

The resolutions authorizing the issuance of electric utility revenue bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. To comply with reserve fund deposit requirements, \$1,061,300 of the original electric utility revenue bond proceeds was deposited in a separate Debt Service Reserve Forward Delivery Agreement with Citigroup Financial Products, Inc. The amount shown as restricted cash and investments as of December 31, 2017 was \$1,134,545. 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, 2017 was \$1,858,899. The Interest payments are made semi-annually on February 20 and August 20, and principal payments on August 20.

Water Utility Revenue Bonds, Series 2015A

The resolutions authorizing the issuance of water utility revenue bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. The amount shown as restricted cash and investments as of December 31, 2017 was \$214,449. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 6 LONG-TERM DEBT (CONTINUED)

General Obligation Utility Revenue Bonds, Series 2016A

The resolutions authorizing the issuance of utility revenue bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. The amount shown as restricted cash and investments as of December 31, 2017 was \$432,803 (Water portion) and \$103,873 (Wastewater portion). The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1.

General Obligation Equipment Certificates of Indebtedness, Series 2016B

The resolutions authorizing the issuance of equipment certificates of indebtedness contain various covenants, reserve fund requirements, and obligations which BPU must comply. The amount shown as restricted cash and investments as of December 31, 2017 was \$44,322 (Electric portion) and \$44,323 (Water portion). The interest payments are made semi-annually on February 1 and August 1, and principal payments on February 1.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Long-term bonds and notes debt consists of the following as of December 31, 2017 and 2016:

Description of Issue	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding	
					December 31,	
					2017	2016
Electric Utility Revenue Bonds, Series 2007A	4.00 - 4.375%	09/01/2007	12/01/2022	\$ 11,140,000	\$ -	\$ 5,385,000
G.O. Sewer Revenue Notes, Series 2008	2.23%	02/08/2008	08/20/2017	1,965,098	-	217,000
G.O. Build America Bonds, Series 2009	3.233%	05/04/2009	08/20/2028	25,966,788	16,978,000	18,247,000
Electric Utility Revenue Bonds, Series 2014A	2.0 - 4.0%	10/09/2014	12/01/2029	6,070,000	5,025,000	5,385,000
Water Utility Revenue Bonds, Series 2015A	2.25 - 4.0%	12/15/2014	12/01/2025	1,700,000	1,380,000	1,540,000
G.O. Utility Revenue Bonds (Water), Series 2016A	1.625 - 5.0%	07/20/2016	10/01/2031	4,845,000	4,640,000	4,845,000
G.O. Utility Revenue Bonds (Sewer), Series 2016A	1.625 - 5.0%	07/20/2016	10/01/2031	1,162,800	1,113,600	1,162,800
G.O. Equipment Certificates of Indebtedness (Electric), Series 2016B	2.0%	07/20/2016	02/01/2021	200,917	160,734	200,917
G.O. Equipment Certificates of Indebtedness (Water), Series 2016B	2.0%	07/20/2016	02/01/2021	200,918	160,734	200,918
Electric Utility Revenue and Refunding Bonds, Series 2017A	2.25%	10/18/2017	12/01/2027	6,035,000	6,035,000	-
Total Debt				\$ 59,286,521	35,493,068	37,183,635
Less Amount Due Within One Year						
Electric Utility Revenue Bonds, Series 2007A					-	800,000
G.O. Sewer Revenue Notes					-	217,000
G.O. Build America Bonds					1,310,000	1,269,000
Electric Utility Revenue Bonds, Series 2014A					365,000	360,000
Water Utility Revenue Bonds, Series 2015A					165,000	160,000
G.O. Utility Revenue Bonds (Water), Series 2016A					245,000	205,000
G.O. Utility Revenue Bonds (Sewer), Series 2016A					58,800	49,200
G.O. Equipment Certificates of Indebtedness (Electric), Series 2016B					39,249	40,184
G.O. Equipment Certificates of Indebtedness (Water), Series 2016B					39,249	40,184
Electric Utility Revenue and Refunding Bonds, Series 2017A					430,000	-
Net Long - Term Debt					\$ 32,840,770	\$ 34,043,067

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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

Year Ending December 31,	Principal	Interest	Total
<u>General Obligation Build America Bonds</u>			
2018	\$ 1,310,000	\$ 548,899	\$ 1,858,899
2019	1,352,000	506,546	1,858,546
2020	1,396,000	462,836	1,858,836
2021	1,441,000	417,704	1,858,704
2022	1,488,000	371,116	1,859,116
2023-2027	8,191,000	1,102,227	9,293,227
2028	1,800,000	58,194	1,858,194
Total	<u>\$ 16,978,000</u>	<u>\$ 3,467,522</u>	<u>\$ 20,445,522</u>
<u>Electric Utility Revenue Bonds, Series 2014A</u>			
2018	\$ 365,000	\$ 166,045	\$ 531,045
2019	375,000	155,095	530,095
2020	380,000	143,845	523,845
2021	385,000	132,445	517,445
2022	395,000	120,895	515,895
2023-2027	2,155,000	401,705	2,556,705
2028-2029	970,000	58,600	1,028,600
Total	<u>\$ 5,025,000</u>	<u>\$ 1,178,630</u>	<u>\$ 6,203,630</u>
<u>Water Utility Revenue Bonds, Series 2015A</u>			
2018	\$ 165,000	\$ 39,237	\$ 204,237
2019	165,000	34,288	199,288
2020	165,000	29,338	194,338
2021	170,000	24,313	194,313
2022	175,000	18,263	193,263
2023-2025	540,000	19,306	559,306
Total	<u>\$ 1,380,000</u>	<u>\$ 164,745</u>	<u>\$ 1,544,745</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
Utility Revenue Bonds, Series 2016A (Water Portion)			
2018	\$ 245,000	\$ 162,444	\$ 407,444
2019	260,000	150,194	410,194
2020	270,000	137,194	407,194
2021	285,000	123,694	408,694
2022	300,000	109,444	409,444
2023-2027	1,730,000	318,788	2,048,788
2028-2031	1,550,000	82,963	1,632,963
Total	<u>\$ 4,640,000</u>	<u>\$ 1,084,721</u>	<u>\$ 5,724,721</u>

Utility Revenue Bonds, Series 2016A (Wastewater Portion)			
2018	\$ 58,800	\$ 38,987	\$ 97,787
2019	62,400	36,047	98,447
2020	64,800	32,926	97,726
2021	68,400	29,686	98,086
2022	72,000	26,267	98,267
2023-2027	415,200	76,509	491,709
2028-2031	372,000	19,911	391,911
Total	<u>\$ 1,113,600</u>	<u>\$ 260,333</u>	<u>\$ 1,373,933</u>

Equipment Certificates of Indebtedness (Electric Portion) - Series 2016B			
2018	\$ 39,249	\$ 2,822	\$ 42,071
2019	40,184	2,028	42,212
2020	40,183	1,224	41,407
2021	41,118	411	41,529
Total	<u>\$ 160,734</u>	<u>\$ 6,485</u>	<u>\$ 167,219</u>

Equipment Certificates of Indebtedness (Water Portion) - Series 2016B			
2018	\$ 39,249	\$ 2,822	\$ 42,071
2019	40,184	2,028	42,212
2020	40,183	1,224	41,407
2021	41,118	411	41,529
Total	<u>\$ 160,734</u>	<u>\$ 6,485</u>	<u>\$ 167,219</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
<u>Electric Utility Revenue and Refunding Bonds, Series 2017A</u>			
2018	\$ 430,000	\$ 152,007	\$ 582,007
2019	475,000	126,113	601,113
2020	510,000	115,425	625,425
2021	565,000	103,950	668,950
2022	600,000	91,238	691,238
2023-2027	<u>3,455,000</u>	<u>237,600</u>	<u>3,692,600</u>
Total	<u>\$ 6,035,000</u>	<u>\$ 826,333</u>	<u>\$ 6,861,333</u>

Long-term debt activity for the year ended December 31, 2017, is as follows:

	Balance	Additions	Reductions	Balance
Electric Utility Revenue Bonds, Series 2007A	\$ 5,385,000	\$ -	\$ 5,385,000	\$ -
G.O. Revenue Notes	217,000	-	217,000	-
G.O. Build America Bonds	18,247,000	-	1,269,000	16,978,000
Electric Utility Revenue Bonds, Series 2014A	5,385,000	-	360,000	5,025,000
Water Utility Revenue Bonds, Series 2015A	1,540,000	-	160,000	1,380,000
Utility Revenue Bonds, Series 2016A	6,007,800	-	254,200	5,753,600
Equipment Certificates of Indebtedness, Series 2016B	401,835	-	80,367	321,468
Electric Utility Revenue and Refunding Bonds, Series 2017A	-	6,035,000	-	6,035,000
Revenue Bond Premium Series 2014A	195,803	-	15,357	180,446
Series 2015A	90,614	-	11,327	79,287
Series 2016A	586,754	-	40,234	546,520
Series 2016B	8,930	-	1,948	6,982
Capital Lease Payable	106,849	-	26,931	79,918
Compensated Absences	687,590	429,223	403,074	713,739
OPEB Obligation	5,509	-	5,509	-
	<u>\$ 38,865,684</u>	<u>\$ 6,464,223</u>	<u>\$ 8,229,947</u>	<u>\$ 37,099,960</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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

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

NOTE 7 CAPITAL LEASE PAYABLE

On June 29, 2004 BPU entered into a lease agreement with Brainerd Independent School District No. 181 (ISD No. 181) to acquire fiber optic strands from ISD No. 181. Per the agreement, the term of the lease will be for a 25 year period commencing June 29, 2004. At the conclusion of the lease, BPU has the option to purchase the strands for \$1. The consideration for the 25-year lease will be \$250,000 payable in ten \$25,000 annual payments, commencing on December 31, 2004. BPU's annual lease payments will be in cash or any combination of cash and/or in-kind services as may be mutually agreed by BPU and ISD No. 181. Capital assets recorded under capital leases total \$250,000 at both December 31, 2017 and 2016, with related accumulated depreciation of \$165,988 and \$152,709, respectively. Depreciation expense related to this asset for the years ended December 31, 2017 and 2016 was \$13,279 and \$13,279, respectively.

In 2015, BPU entered into a capital lease agreement for financing an inserter machine. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its present value of its future minimum lease payments as of the inception date. The asset cost was \$60,606 with related accumulated depreciation of \$34,343 and \$22,222 at December 31, 2017 and 2016, respectively. Depreciation expense related to this asset for the years ended December 31, 2017 and 2016 was \$12,121 and \$12,121, respectively.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 7 CAPITAL LEASE PAYABLE (CONTINUED)

In 2016, BPU entered into a capital lease agreement for financing four vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their present value of their future minimum lease payments as of the inception date. The asset cost for these four vehicles was \$84,812 with related accumulated depreciation of \$24,067 and \$9,880 at December 31, 2017 and 2016, respectively. Depreciation expense related to these assets for the year ended December 31, 2017 and 2016 was \$14,187 and \$9,880, respectively.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, were as follows:

Year Ended December 31,		
2018	\$	33,424
2019		33,424
2020		22,300
2021		5,544
Total Minimum Lease Payments	\$	94,692
Less: Amount Representing Interest		14,774
Present Value of Minimum Lease Payments	\$	79,918

NOTE 8 RISK MANAGEMENT

BPU is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. BPU participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for all its insurance except for employee health insurance which is through Health Partners. The LMCIT operates as a common risk management and insurance program for Minnesota Cities. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. BPU has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements.

NOTE 9 DEFINED BENEFIT PENSION PLANS

General Employees Retirement Plan Description (accounted for in the General Employees Fund)

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

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

General Employees Plan Benefits Provided

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

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

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

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

General Employees Fund Contributions

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2017 while BPU was required to contribute 7.50%. The BPU's contributions to the General Employees Fund for the year ended December 31, 2017 and 2016, were \$258,176 and \$244,836, respectively. BPU's contributions were equal to the required contributions as set by state statute.

General Employees Fund Pension Costs

At December 31, 2017 and 2016, BPU reported a liability of \$3,460,092 and \$4,222,142, respectively, for its proportionate share of the General Employees Fund's net pension liability. BPU's 2017 net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the BPU totaled \$43,509 at December 31, 2017 and \$55,060 at December 31, 2016. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. BPU's proportion of the net pension liability was based on BPU's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017 BPU's proportion was 0.0542 percent which was an increase of .0022 percent from its proportion measured as of June 30, 2016.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2017 and 2016, BPU recognized pension expense of \$557,506 and \$610,443 for its proportionate share of the General Employees Plan's pension expense. In addition, BPU recognized an additional \$1,257 in 2017 and \$16,417 in 2016 as pension expense (and other revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, BPU reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 114,034	\$ 222,596
Changes in Actuarial Assumptions	574,450	346,875
Difference Between Projected and Actual Investment Earnings	22,348	-
Changes in Proportion	128,426	56,962
Contributions Paid to PERA Subsequent of the Measurement Date	129,426	-
Total	<u>\$ 968,684</u>	<u>\$ 626,433</u>

At December 31, 2016, BPU reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 342,987
Changes in Actuarial Assumptions	826,699	-
Difference Between Projected and Actual Investment Earnings	801,381	-
Changes in Proportion	70,462	85,442
Contributions Paid to PERA Subsequent of the Measurement Date	133,133	-
Total	<u>\$ 1,831,675</u>	<u>\$ 428,429</u>

\$129,426 is reported as deferred outflows of resources related to pensions resulting from BPU contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amounts
2018	\$ 191,092
2019	203,067
2020	(34,459)
2021	(146,875)

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

<u>Assumptions</u>	
Inflation	2.50% per Year
Active Member Payroll Growth	3.25% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year through 2044.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017 in the General Employees Fund:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	<u>100%</u>	

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents BPU's proportionate share of the net pension liability at December 31, 2017 and 2016 for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what BPU's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	December 31, 2017		
	1% Higher	Current Discount Rate	1% Lower
General Employees Fund Discount Rate	6.50%	7.50%	8.50%
BPU's Proportionate Share of the General Employees Fund Net Pension Liability	\$ 5,366,860	\$ 3,460,092	\$ 1,899,056

Description	December 31, 2016		
	1% Higher	Current Discount Rate	1% Lower
General Employees Fund Discount Rate	6.50%	7.50%	8.50%
BPU's Proportionate Share of the General Employees Fund Net Pension Liability	\$ 5,996,693	\$ 4,222,142	\$ 2,760,395

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Description and Funding Policy

BPU provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. BPU provides benefits for retirees as required by *Minnesota Statutes* §471.61 subdivision 2b. Active employees who retire from BPU when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under BPU's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay 100% of the total premium cost. As of January 1, 2017, there were two retirees receiving health benefits from BPU's health plan.

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of BPU's annual OPEB cost of the year, the amount actually contributed to the plan, and changes in BPU's net OPEB obligation to the plan.

Annual Required Contribution (ARC):	\$ 55,214
Interest on Net OPEB Obligation	220
Adjustment to ARC	(312)
Annual OPEB Cost	<u>55,122</u>
Contributions during the year	<u>60,631</u>
Net OPEB Obligation	(5,509)
Net OPEB - Beginning of the Year	5,509
Net OPEB - End of the Year	<u><u>\$ -</u></u>
Percentage Contributed	<u><u>110%</u></u>

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2017	\$ 55,122	\$ 60,631	110%	\$ -
December 31, 2016	\$ 54,924	\$ 66,752	122%	\$ 5,509
December 31, 2015	\$ 49,810	\$ 49,108	99%	\$ 17,337

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funding Status and Funding Progress

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

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

NOTE 11 OPERATING TRANSFERS TO THE CITY OF BRAINERD

Commencing July 1, 2003, BPU began making regular financial contributions to the City. These contributions are made on a monthly basis based on retail sales by the BPU Electric Department. Retail sales by the Electric Department are defined as energy sales expressed in kilowatt-hours (kWh) to BPU retail electric customers. For purposes of calculating the contribution amount, energy sales to BPU retail electric customers do not include sales to any City facilities or any energy usage by BPU departments. The monthly BPU contribution is a cash contribution to the City equal to \$0.004 per kWh based on energy sales to retail electric customers in the previous month.

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

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

NOTE 12 COMMITMENTS

Power Contracts

BPU is obligated to purchase all of its wholesale power requirements from Minnesota Power and Light Company through June 30, 2019. On January 4, 2016, BPU signed a market based rate full requirements power sales agreement with AEP Energy Partners, Inc. for the period July 1, 2019 through May 31, 2030.

NOTE 13 SUBSEQUENT EVENT

Issuance of 2018A General Obligation Bonds

On March 22, 2018, the City of Brainerd, on behalf of BPU, issued \$3,025,000 in General Obligation Bonds, Series 2018A, with interest rates from 3.0% to 5.0%, maturing in February 2028, for construction of water tower, water utility system improvements, and utility equipment purchased. Also as part of this bond issue, the City's portion related to sanitary sewer and street improvements and equipment purchased was \$2,270,000. The total amount of the bond is \$5,295,000. The schedule of allocation of bond proceeds is as follows:

Bond Description	Interest Rate	Final Maturity	Bond Allocation		
			BPU	City	Total
Improvement Bonds	3.0-5.0%	02/01/2028	\$ -	\$ 755,000	\$ 755,000
Utility Revenue Bonds	3.0-5.0%	02/01/2028	2,720,000	560,000	3,280,000
Equipment Certificates	5.0%	02/01/2023	305,000	955,000	1,260,000
Total			<u>\$ 3,025,000</u>	<u>\$ 2,270,000</u>	<u>\$ 5,295,000</u>

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REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2017**

Fiscal Year Ending June 30,	BPU Proportion of the Net Pension Liability	BPU Proportionate Share of the Net Pension Liability	State Proportionate Share of the Net Pension Liability	Total Share of BPU's Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a % of its Covered Payroll	Plan Fiduciary Net Position as a % of the Total Pension Liability
2017	0.0542%	\$ 3,460,092	\$ 43,509	\$ 3,503,601	\$ 3,491,769	99.09%	75.90%
2016	0.0520%	\$ 4,222,142	\$ 55,060	\$ 4,277,202	\$ 3,224,539	130.94%	68.91%
2015	0.0543%	\$ 2,814,108	-	\$ 2,814,108	\$ 3,189,264	88.24%	78.20%

Note: Information is presented prospectively and an accumulation of 10 years will be provided.

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 SCHEDULE OF PERA CONTRIBUTIONS
 DECEMBER 31, 2017**

Year Ended December 31,	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a % of Covered Payroll (b/d)
2017	\$ 258,176	\$ 258,176	\$ -	\$ 3,442,336	7.50%
2016	\$ 244,836	\$ 244,836	\$ -	\$ 3,264,478	7.50%
2015	\$ 251,138	\$ 251,138	\$ -	\$ 3,354,434	7.49%
2014	\$ 213,149	\$ 213,149	\$ -	\$ 2,939,984	7.25%

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 SCHEDULE OF FUNDING PROGRESS OTHER POSTEMPLOYMENT BENEFIT PLAN
 YEAR ENDED DECEMBER 31, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/2015	\$ -	\$ 482,663	\$ 482,663	0%	\$ 2,083,138	23.2%
01/01/2012	\$ -	\$ 609,610	\$ 609,610	0%	\$ 2,818,770	21.6%
01/01/2009	\$ -	\$ 438,939	\$ 438,939	0%	\$ 2,477,422	17.7%

SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENT OF NET POSITION BY DEPARTMENT
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016)**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
CAPITAL ASSETS			
In Service	\$ 7,125,483	\$ 36,099,681	\$ 43,225,164
Construction in Progress	68,473	3,465	71,938
Total Investment in Capital Assets	7,193,956	36,103,146	43,297,102
Less: Accumulated Depreciation	(645,777)	(18,378,320)	(19,024,097)
Net Capital Assets	6,548,179	17,724,826	24,273,005
RESTRICTED ASSETS			
Cash and Investments			
Customer Deposits	-	312,904	312,904
City of Brainerd Contribution	-	69,531	69,531
Conservation Incentive Program	-	217,168	217,168
Debt Service Reserve	704,045	474,822	1,178,867
Total Restricted Cash and Investments	704,045	1,074,425	1,778,470
Bonds and Notes Receivable	-	-	-
Notes Receivable - Interest	-	-	-
Total Restricted Assets	704,045	1,074,425	1,778,470
CURRENT ASSETS			
Cash and Investments	(158,279)	603,249	444,970
Accounts Receivable	850,000	2,477,806	3,327,806
Interest Receivable	-	23,605	23,605
Due from the City of Brainerd	-	29,971	29,971
Inventory	-	1,038,181	1,038,181
Prepaid Expenses	71,077	86,688	157,765
Total Current Assets	762,798	4,259,500	5,022,298
OTHER ASSETS			
Service Territory Acquisitions, Net of			
Accumulated Amortization	-	241,621	241,621
Total Assets	8,015,022	23,300,372	31,315,394
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	96,868	484,342	581,210
Total Assets and Deferred Outflows of Resources	\$ 8,111,890	\$ 23,784,714	\$ 31,896,604

WATER	WASTEWATER TREATMENT	TOTALS	
		2017	2016
\$ 24,356,225	\$ 37,611,745	\$ 105,193,134	\$ 94,677,054
8,740	13,208	93,886	6,887,602
<u>24,364,965</u>	<u>37,624,953</u>	<u>105,287,020</u>	<u>101,564,656</u>
(9,387,475)	(12,421,024)	(40,832,596)	(37,161,383)
<u>14,977,490</u>	<u>25,203,929</u>	<u>64,454,424</u>	<u>64,403,273</u>
-	-	312,904	277,504
10,653	171,033	251,217	186,012
-	-	217,168	217,865
<u>691,575</u>	<u>1,962,772</u>	<u>3,833,214</u>	<u>4,770,516</u>
<u>702,228</u>	<u>2,133,805</u>	<u>4,614,503</u>	<u>5,451,897</u>
-	5,659,334	5,659,334	6,154,667
-	66,700	66,700	72,500
<u>702,228</u>	<u>7,859,839</u>	<u>10,340,537</u>	<u>11,679,064</u>
1,408,093	5,139,280	6,992,343	6,401,569
304,148	430,484	4,062,438	2,933,580
-	-	23,605	21,525
705,034	266,882	1,001,887	1,552,246
111,249	-	1,149,430	869,366
-	2,622	160,387	145,269
<u>2,528,524</u>	<u>5,839,268</u>	<u>13,390,090</u>	<u>11,923,555</u>
-	-	241,621	251,355
<u>18,208,242</u>	<u>38,903,036</u>	<u>88,426,672</u>	<u>88,257,247</u>
<u>193,737</u>	<u>193,737</u>	<u>968,684</u>	<u>1,831,675</u>
<u>\$ 18,401,979</u>	<u>\$ 39,096,773</u>	<u>\$ 89,395,356</u>	<u>\$ 90,088,922</u>

**BRainerd PUBLIC UTILITIES
BRainerd, MINNESOTA
COMBINING STATEMENT OF NET POSITION BY DEPARTMENT (CONTINUED)
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
NET POSITION			
Net Investment in Capital Assets	\$ 277,291	\$ 13,639,513	\$ 13,916,804
Restricted for Debt Service	-	-	-
Unrestricted	112,768	1,225,495	1,338,263
Total Net Position	<u>390,059</u>	<u>14,865,008</u>	<u>15,255,067</u>
LONG-TERM LIABILITIES			
Revenue Bonds Payable	6,340,000	3,925,000	10,265,000
General Obligation Equipment Certificates of Indebtedness	-	121,485	121,485
General Obligation Build America Bonds Payable	-	-	-
Capital Lease Payable	7,609	30,276	37,885
Compensated Absences	76,315	332,315	408,630
Net Pension Liability	346,009	1,730,046	2,076,055
Revenue Bond Premium	180,446	3,491	183,937
Other Postemployment Benefit Obligation	-	-	-
Total Long-Term Liabilities	<u>6,950,379</u>	<u>6,142,613</u>	<u>13,092,992</u>
CURRENT LIABILITIES			
Accounts and Contracts Payable	253,534	1,264,950	1,518,484
Revenue Bonds Payable	415,000	380,000	795,000
General Obligation Equipment Certificates of Indebtedness	-	39,249	39,249
General Obligation Sewer Revenue Notes Payable	-	-	-
General Obligation Build America Bonds Payable	-	-	-
Capital Lease Payable	3,333	16,312	19,645
Accrued Expenses			
Salaries and Withholding Taxes	14,920	62,962	77,882
Sales Taxes	22	79,901	79,923
Current Liabilities Payable from Restricted Assets:			
Bond Interest	22,000	20,900	42,900
Payable to City of Brainerd	-	69,531	69,531
Conservation Incentive Program Payable	-	217,168	217,168
Customer Deposits	-	312,904	312,904
Total Current Liabilities	<u>708,809</u>	<u>2,463,877</u>	<u>3,172,686</u>
Total Liabilities	<u>7,659,188</u>	<u>8,606,490</u>	<u>16,265,678</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	62,643	313,216	375,859
Total Net Position, Liabilities and Deferred Inflows of Resources	<u>\$ 8,111,890</u>	<u>\$ 23,784,714</u>	<u>\$ 31,896,604</u>

WATER	WASTEWATER TREATMENT	TOTALS	
		2017	2016
\$ 8,262,042	\$ 6,995,357	\$ 29,174,203	\$ 26,743,813
633,075	7,479,006	8,112,081	10,113,358
1,579,166	4,996,552	7,913,981	6,612,392
<u>10,474,283</u>	<u>19,470,915</u>	<u>45,200,265</u>	<u>43,469,563</u>
5,610,000	1,054,800	16,929,800	16,743,600
121,485	-	242,970	321,467
-	15,668,000	15,668,000	16,978,000
7,059	7,059	52,003	79,919
149,035	156,074	713,739	687,590
692,018	692,019	3,460,092	4,222,142
523,520	105,778	813,235	882,101
-	-	-	5,509
<u>7,103,117</u>	<u>17,683,730</u>	<u>37,879,839</u>	<u>39,920,328</u>
144,646	36,128	1,699,258	1,856,916
410,000	58,800	1,263,800	1,574,200
39,249	-	78,498	80,368
-	-	-	217,000
-	1,310,000	1,310,000	1,269,000
4,135	4,135	27,915	26,930
30,229	26,945	135,056	121,077
1,880	-	81,803	72,430
58,500	209,800	311,200	371,300
10,653	171,033	251,217	186,012
-	-	217,168	217,865
-	-	312,904	277,504
<u>699,292</u>	<u>1,816,841</u>	<u>5,688,819</u>	<u>6,270,602</u>
<u>7,802,409</u>	<u>19,500,571</u>	<u>43,568,658</u>	<u>46,190,930</u>
125,287	125,287	626,433	428,429
<u>\$ 18,401,979</u>	<u>\$ 39,096,773</u>	<u>\$ 89,395,356</u>	<u>\$ 90,088,922</u>

BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2016)

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
OPERATING REVENUES			
Utility Revenues			
Residential	\$ -	\$ 5,693,564	\$ 5,693,564
Commercial	-	7,220,309	7,220,309
Large Commercial	-	5,359,071	5,359,071
City of Brainerd	-	361,941	361,941
Internal Use	-	777,475	777,475
Total Utility Revenues	-	19,412,360	19,412,360
Other Operating Revenues			
Penalties	-	117,428	117,428
Other	4,351	292,255	296,606
Total Other Operating Revenues	4,351	409,683	414,034
Total Operating Revenues	4,351	19,822,043	19,826,394
OPERATING EXPENSES			
Generation, Production, and Treatment			
Salaries and Wages	353,700	-	353,700
Purchased Services	10,399	-	10,399
Supplies and Maintenance	18,122	-	18,122
Employee Benefits	226,971	-	226,971
Other Charges	39,726	-	39,726
Total Generation, Production, and Treatment Expenses	648,918	-	648,918
Purchased Power	(1,495,341)	14,249,684	12,754,343
Distribution and Collection			
Salaries and Wages	-	896,154	896,154
Purchased Services	-	164,255	164,255
Supplies and Maintenance	-	122,356	122,356
Employee Benefits	-	308,850	308,850
Other Charges	-	23,184	23,184
Total Distribution and Collection Expenses	-	1,514,799	1,514,799

WATER	WASTEWATER TREATMENT	TOTALS	
		2017	2016
\$ 1,156,153	\$ 1,335,752	\$ 8,185,469	\$ 7,731,833
1,028,645	1,269,634	9,518,588	8,811,968
-	-	5,359,071	5,133,161
89,719	9,976	461,636	432,827
60,485	525	838,485	774,885
<u>2,335,002</u>	<u>2,615,887</u>	<u>24,363,249</u>	<u>22,884,674</u>
20,092	29,546	167,066	155,198
46,782	24,012	367,400	196,820
<u>66,874</u>	<u>53,558</u>	<u>534,466</u>	<u>352,018</u>
2,401,876	2,669,445	24,897,715	23,236,692
221,829	321,336	896,865	848,262
112,639	611,249	734,287	660,294
46,272	84,839	149,233	154,870
91,421	151,342	469,734	472,200
145	19,867	59,738	53,386
<u>472,306</u>	<u>1,188,633</u>	<u>2,309,857</u>	<u>2,189,012</u>
-	-	12,754,343	12,474,887
347,639	102,923	1,346,716	1,276,390
158,287	139,000	461,542	422,956
56,615	24,183	203,154	211,858
118,253	54,858	481,961	470,182
16,580	139	39,903	39,979
<u>697,374</u>	<u>321,103</u>	<u>2,533,276</u>	<u>2,421,365</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, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2016)**

	ELECTRIC		
	GENERATION	DISTRIBUTION	TOTAL
OPERATING EXPENSES (CONTINUED)			
Administration			
Salaries and Wages	\$ 38,538	\$ 574,735	\$ 613,273
Purchased Services	34,280	269,006	303,286
Supplies and Maintenance	3,622	58,146	61,768
Insurance and Bonds	59,306	74,886	134,192
Employee Benefits	49,943	268,331	318,274
Other Charges	10,878	187,113	197,991
Total Administration Expenses	<u>196,567</u>	<u>1,432,217</u>	<u>1,628,784</u>
Depreciation and Amortization	<u>214,078</u>	<u>1,561,662</u>	<u>1,775,740</u>
Total Operating Expenses	<u>(435,778)</u>	<u>18,758,362</u>	<u>18,322,584</u>
OPERATING INCOME (LOSS)	440,129	1,063,681	1,503,810
NONOPERATING REVENUE (EXPENSE)			
Interest Income - Investments	-	40,957	40,957
Interest Income - Notes Receivable	-	-	-
Bond Premium	15,357	974	16,331
Interest Expense	(183,745)	(230,677)	(414,422)
Local Option Sales Tax	-	-	-
Federal Grant Revenue - Build America Bond	-	-	-
Bond Issuance Costs	(42,227)	(60,235)	(102,462)
Gain (Loss) on Disposal of Capital Assets	-	102,025	102,025
Net Nonoperating Revenue (Expense)	<u>(210,615)</u>	<u>(146,956)</u>	<u>(357,571)</u>
INCOME (LOSS) BEFORE TRANSFERS	229,514	916,725	1,146,239
CONTRIBUTED CAPITAL	-	-	-
TRANSFERS TO THE CITY	-	(672,823)	(672,823)
CHANGE IN NET POSITION	<u>\$ 229,514</u>	<u>\$ 243,902</u>	<u>\$ 473,416</u>

WATER	WASTEWATER TREATMENT	TOTALS	
		2017	2016
\$ 224,976	\$ 220,471	\$ 1,058,720	\$ 992,369
78,581	74,611	456,478	439,963
20,791	13,438	95,997	91,625
51,029	66,091	251,312	192,027
90,170	115,019	523,463	543,466
32,857	37,831	268,679	230,615
<u>498,404</u>	<u>527,461</u>	<u>2,654,649</u>	<u>2,490,065</u>
820,770	1,428,959	4,025,469	3,751,558
<u>2,488,854</u>	<u>3,466,156</u>	<u>24,277,594</u>	<u>23,326,887</u>
(86,978)	(796,711)	620,121	(90,195)
1,394	108,385	150,736	120,724
-	195,055	195,055	204,735
44,748	7,787	68,866	44,260
(84,799)	(587,188)	(1,086,409)	(1,118,421)
250,536	1,065,029	1,315,565	977,969
-	122,452	122,452	138,370
-	-	(102,462)	(79,424)
8,327	20,681	131,033	53,661
<u>220,206</u>	<u>932,201</u>	<u>794,836</u>	<u>341,874</u>
133,228	135,490	1,414,957	251,679
988,568	-	988,568	310,000
-	-	(672,823)	(681,227)
<u>\$ 1,121,796</u>	<u>\$ 135,490</u>	<u>\$ 1,730,702</u>	<u>\$ (119,548)</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Cost			
	12/31/2016	Additions	Retirements	12/31/2017
Electric Department				
<u>Generation</u>				
Land and Land Improvements	\$ 314,739	\$ -	\$ -	\$ 314,739
Generation Facilities	4,928,719	1,833,314	-	6,762,033
Transportation Equipment	16,666	-	-	16,666
Total Generation	5,260,124	1,833,314	-	7,093,438
<u>Distribution</u>				
Land and Land Improvements	247,935	-	-	247,935
Distribution System	28,952,913	993,760	-	29,946,673
Street and Security Lighting System	579,374	7,609	-	586,983
Machinery and Equipment	870,983	-	-	870,983
Transportation Equipment	1,303,592	202,774	144,915	1,361,451
Total Distribution	31,954,797	1,204,143	144,915	33,014,025
Total Electric Department	37,214,921	3,037,457	144,915	40,107,463
Water Department				
<u>Production</u>				
Structures and Improvements	1,646,237	-	-	1,646,237
Wells, Pumps and Accessories	480,741	230,427	-	711,168
Water Treatment Plant Equipment	1,796,976	19,874	-	1,816,850
Total Production	3,923,954	250,301	-	4,174,255
<u>Distribution</u>				
Distribution System	12,161,898	6,184,675	-	18,346,573
Machinery and Equipment	300,602	-	-	300,602
Transportation Equipment	362,197	5,017	26,452	340,762
Total Water Distribution	12,824,697	6,189,692	26,452	18,987,937
Total Water Department	16,748,651	6,439,993	26,452	23,162,192
Wastewater Treatment Department				
Land and Land Improvements	35,485	-	-	35,485
Collection System	3,830,784	1,254,619	-	5,085,403
Treatment Facility	30,648,558	39,166	149,261	30,538,463
Machinery and Equipment	368,454	-	-	368,454
Transportation Equipment	95,778	-	-	95,778
Total Wastewater Treatment Department	34,979,059	1,293,785	149,261	36,123,583
General Plant				
Land and Land Improvements	1,452,904	47,537	-	1,500,441
Service Center	3,603,696	35,774	-	3,639,470
Furniture and Fixtures	418,451	37,928	36,671	419,708
Transportation Equipment	193,572	-	19,095	174,477
Storage Building	65,800	-	-	65,800
Total General Plant	5,734,423	121,239	55,766	5,799,896
Total Capital Assets in Service	94,677,054	10,892,474	376,394	105,193,134
Construction Work in Progress	6,887,602	2,229,623	9,023,339	93,886
Total Investment in Capital Assets	\$ 101,564,656	\$ 13,122,097	\$ 9,399,733	\$ 105,287,020

Composite Depreciation Rates	Accumulated Depreciation				Percent of Asset Balance
	12/31/2016	Additions	Retirements	12/31/2017	
1.2%	\$ 1,937	\$ 3,874	\$ -	\$ 5,811	1.8%
3.0%	424,181	201,215	-	625,396	9.2%
20.0%	2,222	3,333	-	5,555	33.3%
2.9%	428,340	208,422	-	636,762	9.0%
2.2%	5,381	5,382	-	10,763	4.3%
4.2%	13,115,393	1,257,533	-	14,372,926	48.0%
4.5%	319,851	26,187	-	346,038	59.0%
7.2%	537,462	62,750	-	600,212	68.9%
5.9%	868,704	80,162	144,915	803,951	59.1%
4.3%	14,846,791	1,432,014	144,915	16,133,890	48.9%
	15,275,131	1,640,436	144,915	16,770,652	
0.9%	1,579,260	14,282	-	1,593,542	96.8%
7.7%	110,190	54,655	-	164,845	23.2%
9.2%	724,772	166,453	-	891,225	49.1%
5.6%	2,414,222	235,390	-	2,649,612	63.5%
2.7%	5,002,428	489,921	-	5,492,349	29.9%
7.1%	168,940	21,477	-	190,417	63.3%
8.1%	176,855	27,451	26,452	177,854	52.2%
2.8%	5,348,223	538,849	26,452	5,860,620	30.9%
3.3%	7,762,445	774,239	26,452	8,510,232	36.7%
0.0%	-	-	-	-	0.0%
2.3%	2,832,427	118,481	-	2,950,908	58.0%
4.2%	7,596,532	1,277,569	114,526	8,759,575	28.7%
3.3%	296,446	12,040	-	308,486	83.7%
0.0%	95,778	-	-	95,778	100.0%
3.9%	10,821,183	1,408,090	114,526	12,114,747	33.5%
0.9%	353,947	12,954	-	366,901	24.5%
3.7%	2,438,227	133,710	-	2,571,937	70.7%
5.5%	342,890	23,085	36,671	329,304	78.5%
9.9%	104,776	17,342	19,095	103,023	59.0%
4.6%	62,784	3,016	-	65,800	100.0%
3.3%	3,302,624	190,107	55,766	3,436,965	59.3%
3.8%	37,161,383	4,012,872	341,659	40,832,596	38.8%
	-	-	-	-	
3.8%	<u>\$ 37,161,383</u>	<u>\$ 4,012,872</u>	<u>\$ 341,659</u>	<u>\$ 40,832,596</u>	38.8%

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OTHER INFORMATION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ELECTRIC DISTRIBUTION DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2008 THROUGH 2017
(UNAUDITED)**

	2008	2009	2010	2011	2012	2013
Electric Capital Assets						
In Service (Thousands)	\$ 25,166	\$ 28,142	\$ 29,559	\$ 29,876	\$ 30,874	\$ 32,385
Investment Per Meter	\$ 3,228	\$ 3,607	\$ 3,778	\$ 3,825	\$ 3,948	\$ 4,120
Investment Per Dollar of Electric Revenue	\$ 1.45	\$ 1.75	\$ 1.79	\$ 1.70	\$ 1.71	\$ 1.91
Accumulated Depreciation (Thousands)						
Percent of Capital Assets	37.4%	37.0%	38.5%	39.3%	40.7%	42.2%
Annual Depreciation (Thousands)	\$ 884	\$ 1,086	\$ 1,137	\$ 1,191	\$ 1,199	\$ 1,238
Percent of Annual Depreciation to Average Capital Assets in Service	3.8%	4.1%	3.9%	4.0%	4.0%	3.9%
Number of Meters (Year-End)	7,796	7,801	7,824	7,810	7,820	7,861
Cost of Power						
KWH Purchased (Thousands)	256,066	230,564	239,580	242,241	247,092	202,882
KWH Generated	-	-	-	-	-	-
Total Cost (Thousands)	\$ 11,588	\$ 11,753	\$ 12,873	\$ 14,488	\$ 14,498	\$ 12,881
Cost Per KWH Purchased (Cents)	4.53	5.10	5.37	5.98	5.87	6.35
Percent of System Loss	5.6%	4.2%	3.7%	3.3%	2.7%	2.1%
Average Load Factor for Year	72.0%	70.2%	70.3%	71.0%	72.4%	67.6%
Electric Revenue						
KWH Sold (Thousands)	241,640	221,000	230,756	234,226	240,530	198,534
Electric Utility Revenue (Thousands)	\$ 17,307	\$ 16,079	\$ 16,485	\$ 17,559	\$ 18,054	\$ 16,973
Per KWH Sold (Cents)	7.16	7.28	7.14	7.50	7.51	8.56
Gross Margin Per KWH (Cents)	2.63	2.18	1.77	1.52	1.64	2.21
Operating Income (Loss) (Thousands)	\$ 2,417	\$ 874	\$ 180	\$ (459)	\$ 223	\$ 556
Change in Net Position (Thousands)	\$ 1,703	\$ 45	\$ (882)	\$ (1,217)	\$ (772)	\$ (400)

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

2014	2015	2016	2017
\$ 36,146	\$ 39,034	\$ 40,295	\$ 43,225
\$ 4,558	\$ 4,912	\$ 5,046	\$ 5,377
\$ 2.01	\$ 2.15	\$ 2.22	\$ 2.23
\$ 14,892	\$ 15,838	\$ 17,441	\$ 19,024
41.2%	40.6%	43.3%	44.0%
\$ 1,344	\$ 1,520	\$ 1,636	\$ 1,763
3.9%	4.0%	4.1%	4.2%
7,931	7,946	7,986	8,039
186,738	167,978	166,984	165,645
5,601	18,554	20,116	19,401
\$ 12,270	\$ 11,287	\$ 12,475	\$ 12,754
6.60	6.72	7.47	7.70
3.6%	3.4%	3.6%	3.5%
69.9%	66.8%	66.5%	66.9%
185,427	180,256	180,334	178,511
\$ 18,009	\$ 18,119	\$ 18,159	\$ 19,412
9.71	10.05	10.07	10.87
3.11	3.33	2.60	3.17
\$ 1,653	\$ 1,666	\$ 556	\$ 1,504
\$ 621	\$ 707	\$ (457)	\$ 473

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WATER DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2008 THROUGH 2017
(UNAUDITED)**

	2008	2009	2010	2011	2012	2013
Water Capital Assets						
In Service (Thousands)	\$ 14,963	\$ 15,464	\$ 15,384	\$ 15,524	\$ 15,814	\$ 16,153
Investment Per Meter	\$ 3,244	\$ 3,355	\$ 3,326	\$ 3,359	\$ 3,407	\$ 3,473
Investment Per Dollar of Water Revenue	\$ 9.30	\$ 9.88	\$ 8.92	\$ 8.86	\$ 8.03	\$ 7.62
Accumulated Depreciation (Thousands)	\$ 6,229	\$ 6,623	\$ 6,476	\$ 6,866	\$ 7,349	\$ 7,815
Percent of Capital Assets	41.6%	42.8%	42.1%	44.2%	46.5%	48.4%
Annual Depreciation (Thousands)	\$ 471	\$ 470	\$ 489	\$ 493	\$ 483	\$ 493
Percent of Annual Depreciation to Average Capital Assets in Service	3.3%	3.1%	3.2%	3.2%	3.1%	3.1%
Number of Meters (Year-End)	4,613	4,609	4,626	4,621	4,642	4,651
Cost of Water Production						
Gallons Pumped into Distribution System (Thousands)	540,542	568,687	514,258	500,195	497,183	507,118
Total Cost (Thousands)	\$ 432	\$ 435	\$ 410	\$ 466	\$ 477	\$ 478
Cost Per Thousand Gallons Pumped	\$ 0.80	\$ 0.76	\$ 0.80	\$ 0.93	\$ 0.96	\$ 0.94
Percent of System Loss	10.5%	20.9%	12.2%	12.9%	11.8%	14.7%
Water Revenue						
Gallons Sold (Thousands)	483,738	449,823	451,584	435,473	438,609	432,521
Water Utility Revenue (Thousands)	\$ 1,609	\$ 1,565	\$ 1,725	\$ 1,752	\$ 1,969	\$ 2,119
Per Thousand Gallons Sold	\$ 3.33	\$ 3.48	\$ 3.82	\$ 4.02	\$ 4.49	\$ 4.90
Gross Margin Per Thousand Gallons Sold	\$ 2.53	\$ 2.72	\$ 3.02	\$ 3.09	\$ 3.53	\$ 3.96
Operating Income (Loss) (Thousands)	\$ (120)	\$ (172)	\$ (34)	\$ (66)	\$ 183	\$ 304
Change in Net Position (Thousands) Before Capital Contributions from City	\$ 186	\$ (112)	\$ (171)	\$ (34)	\$ 184	\$ 299

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

2014	2015	2016	2017
\$ 17,653	\$ 17,655	\$ 17,930	\$ 24,356
\$ 3,814	\$ 3,797	\$ 3,835	\$ 5,160
\$ 8.60	\$ 8.11	\$ 7.95	\$ 10.43
\$ 7,949	\$ 7,974	\$ 8,608	\$ 9,387
45.0%	45.2%	48.0%	38.5%
\$ 553	\$ 656	\$ 702	\$ 821
3.3%	3.7%	4.0%	3.9%
4,629	4,650	4,675	4,720
500,441	506,271	492,846	482,159
\$ 481	\$ 442	\$ 459	\$ 472
\$ 0.96	\$ 0.87	\$ 0.93	\$ 0.98
16.3%	18.7%	18.8%	19.5%
418,668	411,825	400,226	388,296
\$ 2,053	\$ 2,177	\$ 2,254	\$ 2,335
\$ 4.90	\$ 5.29	\$ 5.63	\$ 6.01
\$ 3.94	\$ 4.42	\$ 4.70	\$ 5.03
\$ 171	\$ 184	\$ 72	\$ (87)
\$ 143	\$ 153	\$ 12	\$ 133

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WASTEWATER TREATMENT DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2008 THROUGH 2017
(UNAUDITED)**

	2008	2009	2010	2011	2012	2013
Wastewater Treatment Capital Assets						
In Service (Thousands)	\$ 13,501	\$ 14,299	\$ 26,975	\$ 35,931	\$ 36,329	\$ 36,325
Investment Per Account	\$ 2,958	\$ 3,134	\$ 5,901	\$ 7,862	\$ 7,908	\$ 7,892
Investment Per Dollar of Wastewater Treatment Revenue	\$ 6.55	\$ 6.76	\$ 12.34	\$ 15.91	\$ 15.77	\$ 15.93
Accumulated Depreciation (Thousands)	\$ 9,076	\$ 10,023	\$ 5,402	\$ 4,401	\$ 5,708	\$ 7,046
Percent of Capital Assets	67.2%	70.1%	20.0%	12.2%	15.7%	19.4%
Annual Depreciation (Thousands)	\$ 763	\$ 1,056	\$ 986	\$ 1,644	\$ 1,374	\$ 1,384
Percent of Annual Depreciation to Average Capital Assets in Service	5.7%	7.6%	4.8%	5.2%	3.8%	3.8%
Number of Accounts (Year-End)	4,564	4,562	4,571	4,570	4,594	4,603
Cost of Wastewater Treatment						
Flow in Gallons Processed (Thousands)	762,208	765,652	675,928	723,764	725,787	677,322
Total Treatment Cost (Thousands)	\$ 506	\$ 567	\$ 638	\$ 1,016	\$ 975	\$ 1,082
Cost Per Thousand Gallons Processed	\$ 0.66	\$ 0.74	\$ 0.94	\$ 1.40	\$ 1.34	\$ 1.60
Percent of System Loss	15.7%	16.1%	16.1%	24.7%	24.6%	19.7%
Wastewater Treatment Revenue						
Flow in Gallons Sold (Thousands)	642,762	642,413	567,138	545,138	547,053	544,183
Wastewater Treatment Utility Revenue (Thousands)	\$ 2,062	\$ 2,115	\$ 2,186	\$ 2,258	\$ 2,304	\$ 2,281
Per Thousand Gallons Sold	\$ 3.21	\$ 3.29	\$ 3.85	\$ 4.14	\$ 4.21	\$ 4.19
Gross Margin Per Thousand Gallons Sold	\$ 2.55	\$ 2.55	\$ 2.91	\$ 2.74	\$ 2.87	\$ 2.59
Operating Income (Loss) (Thousands)	\$ 95	\$ (142)	\$ (101)	\$ (1,079)	\$ (706)	\$ (843)
Change in Net Position (Thousands)	\$ 927	\$ 657	\$ 840	\$ (402)	\$ (2)	\$ (482)

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

2014	2015	2016	2017
\$ 36,368	\$ 36,403	\$ 36,453	\$ 37,612
\$ 7,937	\$ 7,914	\$ 7,882	\$ 8,045
\$ 15.78	\$ 15.44	\$ 14.75	\$ 14.38
\$ 8,424	\$ 9,746	\$ 11,113	\$ 12,421
23.2%	26.8%	30.5%	33.0%
\$ 1,382	\$ 1,392	\$ 1,402	\$ 1,429
3.8%	3.8%	3.9%	3.9%
4,582	4,600	4,625	4,675
799,681	700,235	764,803	844,303
\$ 1,106	\$ 1,001	\$ 1,084	\$ 1,189
\$ 1.38	\$ 1.43	\$ 1.42	\$ 1.41
30.7%	22.7%	28.7%	31.8%
554,578	541,213	545,513	575,734
\$ 2,304	\$ 2,357	\$ 2,471	\$ 2,616
\$ 4.15	\$ 4.36	\$ 4.53	\$ 4.54
\$ 2.77	\$ 2.93	\$ 3.11	\$ 3.13
\$ (831)	\$ (642)	\$ (719)	\$ (797)
\$ 2	\$ 61	\$ 15	\$ 135

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OTHER REPORTS SECTION

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

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise BPU's basic financial statements, and have issued our report date thereon dated April 30, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 30, 2018

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2017, 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 April 30, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories. BPU does not have any tax increment financing districts and therefore this compliance was not tested.

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

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 30, 2018