

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA**

FINANCIAL REPORT

DECEMBER 31, 2018 AND 2017

**BRAINERD PUBLIC UTILITIES
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DECEMBER 31, 2018 AND 2017**

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INTRODUCTORY SECTION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ORGANIZATIONAL DATA
DECEMBER 31, 2018**

COMMISSION

Term Expires
December 31,

President	William Wroolie	2021
Vice President	Dolly Matten	2019
Commission Member	Mark O'Day	2020
Commission Member	Mike Angland	2022
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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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, 2018 and 2017, 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the year ended December 31, 2018, BPU adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of this standard, BPU reported a restatement for a change in accounting principle (see Note 13). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require management discussion and analysis, schedule of proportionate share of the net pension liability, schedule of PERA contributions, and the schedule of changes in BPU's OPEB liability and related ratios 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.

Brainerd Public Utilities Commission
Brainerd Public Utilities

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2019, 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 22, 2019

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**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2018 AND 2017
(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, 2018 and 2017. This discussion and analysis should be read in conjunction with BPU's financial statements and accompanying notes, which follow this section.

Financial Highlights from 2017 to 2018

- BPU's combined net position increased \$2.2 million, or 4.9%, from \$45.2 million to \$47.4 million.
- Combined total assets and deferred outflow of resources increased \$2.7 million, or 3.0%, from \$89.4 to \$92.1 million.
- Combined total liabilities increased \$0.3 million, or 0.7%, from \$43.6 to \$43.9 million.
- Combined total operating revenue increased \$2.1 million, or 8.2%, from \$24.9 million to \$27.0 million.
- Combined total operating expenses increased \$0.1 million, or 0.6%, from \$24.3 million to \$24.4 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, 2018 AND 2017
(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 69.4% and 72.1% of total assets and deferred outflows of resources as of December 31, 2018 and 2017, respectively. Long-term liabilities represent 41.1% and 42.4% of total liabilities, net position, and deferred inflows of resources as of December 31, 2018 and 2017, respectively. Total net position increased 4.9% and 4.0% as of December 31, 2018 and 2017, respectively.

The largest portion of BPU's net position (59.3%), at December 31, 2018, 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 2018, \$8.0 million or 17.0% of BPU's net position represents resources that are restricted. The remaining balance of unrestricted net position of \$11.3 million or 23.8% 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 are shown in combined form.

Combined total operating revenue from 2017 to 2018 increased \$2.1 million, or 8.2%, from \$24.9 million to \$27.0 million.

Combined total operating expenses from 2017 to 2018 increased \$0.1 million, or 0.6%, from \$24.3 million to \$24.4 million. For 2018 significant changes were a decrease of \$0.9 million in purchased power and increase of \$0.4 million in both distribution and collection and depreciation.

Net nonoperating revenue (expense) from 2017 to 2018 decreased \$0.1 million, or 11.6%, from \$0.795 million to \$0.703 million. The significant change for 2018 was increase in interest expense of \$0.1 million.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2018 AND 2017
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Net Position

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

	December 31,			Change	
	2018	2017	2016	2018 to 2017	2017 to 2016
Net Capital Assets	\$ 63,943	\$ 64,454	\$ 64,403	\$ (511)	\$ 51
Restricted Assets	10,628	10,341	11,679	287	(1,338)
Current Assets	16,704	13,390	11,924	3,314	1,466
Other Assets	230	242	251	(12)	(9)
Total Assets	91,505	88,427	88,257	3,078	170
Deferred Outflows of Resources	592	968	1,832	(376)	(864)
Total Assets and Deferred Outflows	\$ 92,097	\$ 89,395	\$ 90,089	\$ 2,702	\$ (694)
Current Liabilities	\$ 6,018	\$ 5,689	\$ 6,271	\$ 329	\$ (582)
Long-Term Liabilities	37,857	37,880	39,920	(23)	(2,040)
Total Liabilities	43,875	43,569	46,191	306	(2,622)
Net Investment in Capital Assets	28,105	29,174	26,744	(1,069)	2,430
Restricted Net Position	8,033	8,112	10,113	(79)	(2,001)
Unrestricted Net Position	11,293	7,914	6,613	3,379	1,301
Total Net Position	47,431	45,200	43,470	2,231	1,730
Deferred Inflows of Resources	791	626	428	165	198
Total Liabilities, Net Position and Deferred Inflows	\$ 92,097	\$ 89,395	\$ 90,089	\$ 2,702	\$ (694)

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2018 AND 2017
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position

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

	2018	2017	Dollar Change	Percentage Change
OPERATING REVENUES				
Electric	\$ 21,549	\$ 19,826	\$ 1,723	8.7%
Water	2,598	2,402	196	8.2%
Wastewater Treatment	2,805	2,670	135	5.1%
Total Operating Revenue	26,952	24,898	2,054	8.2%
OPERATING EXPENSES				
Production and Treatment	2,410	2,310	100	4.3%
Purchased Power	11,854	12,754	(900)	-7.1%
Distribution and Collection	2,879	2,533	346	13.7%
Administration	2,849	2,655	194	7.3%
Depreciation and Amortization	4,431	4,026	405	10.1%
Total Operating Expenses	24,423	24,278	145	0.6%
OPERATING INCOME (LOSS)	2,529	620	1,909	307.9%
NONOPERATING REVENUE (EXPENSE)				
Interest Income - Investments	158	151	7	4.6%
Interest Income - Notes Receivabl	184	195	(11)	-5.6%
Bond Premium	87	69	18	26.1%
Interest Expense	(1,187)	(1,086)	(101)	9.3%
Local Option Sales Tax	1,334	1,315	19	1.4%
Federal Grant Revenue -				
Build America Bond	119	122	(3)	-2.5%
Bond Issuance Costs	(45)	(102)	57	0.0%
Gain (Loss) on Disposal of Capital Assets	53	131	(78)	0.0%
Net Nonoperating Revenue	703	795	(92)	-11.6%
INCOME BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	3,232	1,415	1,817	128.4%
CONTRIBUTED CAPITAL	-	988	(988)	0.0%
TRANSFERS TO THE CITY	(691)	(673)	(18)	2.7%
CHANGE IN NET POSITION	2,541	1,730	811	46.9%
Net Position - Beginning	45,200	43,470	1,730	4.0%
Change in Accounting Principle	(310)	-	(310)	100.0%
Net Position - Beginning, as Restated	44,890	43,470	1,420	3.3%
NET POSITION - ENDING	<u>\$ 47,431</u>	<u>\$ 45,200</u>	<u>\$ 2,231</u>	4.9%

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2018 AND 2017
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position
Table 2 (Continued)
(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 Receivable	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 TRANSFERS AND CONTRIBUTED CAPITAL	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, 2018 AND 2017
(UNAUDITED)**

Capital Assets

Net Capital Assets – Table 3, shows changes in net capital assets from 2016 to 2018. Total net capital assets as of December 31, 2018 and 2017 were \$64.0 million and \$64.5 million, respectively.

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

	December 31,			Change	
	2018	2017	2016	2018 to 2017	2017 to 2016
Electric Department					
Generation System	\$ 5,911	\$ 6,137	\$ 4,505	\$ (226)	\$ 1,632
Distribution System	15,383	15,574	15,838	(191)	(264)
Street and Security Lighting System	283	241	260	42	(19)
Water Department					
Production Facilities	1,345	1,525	1,510	(180)	15
Distribution System	13,243	12,854	7,159	389	5,695
Wastewater Treatment Department					
Lift Station Facilities	2,009	2,134	998	(125)	1,136
Treatment Facilities	20,575	21,779	23,052	(1,204)	(1,273)
Land and Land Improvements	1,713	1,715	1,690	(2)	25
Machinery and Equipment	485	441	537	44	(96)
Furniture and Fixtures	144	90	76	54	14
Transportation Equipment	955	803	723	152	80
Service Center	1,230	1,067	1,168	163	(101)
Construction in Progress	667	94	6,887	573	(6,793)
Total	<u>\$ 63,943</u>	<u>\$ 64,454</u>	<u>\$ 64,403</u>	<u>\$ (511)</u>	<u>\$ 51</u>

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

	2018	2017	2016
Additions and Transfers to Capital Assets			
Being Depreciated (By Department)			
Electric	\$ 1,353	\$ 3,037	\$ 1,242
Water	1,222	6,440	333
Wastewater Treatment	325	1,294	75
General Plant	432	121	72
	<u>3,332</u>	<u>10,892</u>	<u>1,722</u>
Additions to Construction in Progress	2,504	2,230	7,320
Transfers from Construction in Progress			
to Capital Assets Being Depreciated	(1,931)	(9,023)	(725)
Deletions and Transfers	-	(35)	-
Normal Annual Depreciation	<u>(4,416)</u>	<u>(4,013)</u>	<u>(3,740)</u>
Total	<u>\$ (511)</u>	<u>\$ 51</u>	<u>\$ 4,577</u>

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2018 AND 2017
(UNAUDITED)**

Capital Assets (Continued)

Major capital asset transactions for 2018 and 2017 include the following:

	2018	2017
<u>Electric</u>		
Distribution Transformers and Metering Purchased	\$ 364,396	\$ 372,500
Expansion of Distribution Feeder System	490,587	308,900
Distribution System Improvements	260,425	312,400
Bucket Truck	-	202,800
LED Lighting	72,054	7,600
Service Truck	45,473	-
Hydroelectric Dam Improvements	47,171	1,833,300
<u>Water</u>		
Purchase of Meters and Valves	27,470	19,900
Distribution System Improvements	1,009,875	6,184,700
Backup Cat Generator	-	219,700
Well Improvements	38,501	10,800
Machinery and Equipment	23,102	5,000
Service Truck	78,132	-
<u>Wastewater</u>		
Lift Station Improvements	30,637	1,254,600
Treatment Facility Improvements	73,496	39,200
Tanker Trucks	146,087	-
Service Trucks	74,089	-
<u>General Plant</u>		
Parking Lot Improvements	58,997	47,500
Communication System	-	37,900
Service Center Improvements	266,903	35,800
Computer Security System	105,951	-
Forklift	85,759	-
Portable Radios	5,871	-
SCADA System Upgrade	27,947	-
<u>Construction in Progress</u>		
Hydroelectric FERC Relicensing	110,663	34,900
Water Tower Design and Construction	426,107	8,700
Lift Station Improvements	-	13,200
Water Distribution System Improvements	-	23,100
RF Metering	-	25,300
Work Order Software	35,300	-
Hydroelectric Dam Apron Repair Project	-	1,234,800
Hydroelectric Dam System Improvements	-	33,500
Water Plant Backup Generator	-	31,700
Airport Extension Water and Lift Station Improvements	-	472,000
Service Doors	-	10,100
Electric Distribution System Improvements	-	342,200
Total	<u>\$ 3,904,993</u>	<u>\$ 13,122,100</u>

**BRainerd Public Utilities
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2018 AND 2017
(UNAUDITED)**

Long-Term Obligations

The following table presents the change in the outstanding debt of BPU from 2016 to 2018.

	(In Thousands of Dollars)				
	Balance as of December 31,			Increase (Decrease)	
	2018	2017	2016	2018 to 2017	2017 to 2016
Utility Revenue Bonds					
Series 2007A	\$ -	\$ -	\$ 5,385	\$ -	\$ (5,385)
Series 2014A	4,660	5,025	5,385	(365)	(360)
Series 2015A	1,215	1,380	1,540	(165)	(160)
Series 2016A	5,450	5,754	6,008	(304)	(254)
Series 2016B (Equip. Certs.)	243	321	402	(78)	(81)
Series 2017A	5,605	6,035	-	(430)	6,035
Series 2018A	2,720	-	-	2,720	-
Series 2018A (Equip. Certs.)	305	-	-	305	-
G.O. Revenue Notes/Bonds					
Series 2008	-	-	217	-	(217)
Series 2009 - Build America	15,668	16,978	18,247	(1,310)	(1,269)
Capital Lease Payable	52	80	107	(28)	(27)
Compensated Absences	777	714	687	63	27
Net Pension Liability	2,957	3,460	4,222	(503)	(762)
Revenue Bond Premium	947	813	882	134	(69)
OPEB Obligation	-	-	5	-	(5)
Total Long-Term Debt	40,599	40,560	43,087	39	(2,527)
Less: Current Portion					
Utility Revenue Bonds					
Series 2007A	-	-	800	-	(800)
Series 2014A	375	365	360	10	5
Series 2015A	165	165	160	-	5
Series 2016A	322	304	254	18	50
Series 2016B (Equip. Certs.)	80	78	80	2	(2)
Series 2017A	475	430	-	45	430
Series 2018A	240	-	-	240	-
Series 2018A (Equip. Certs.)	55	-	-	55	-
G.O. Revenue Notes/Bonds					
Series 2008	-	-	217	-	(217)
Series 2009 - Build America	1,352	1,310	1,269	42	41
Capital Lease Payable	23	28	27	(5)	1
Total Current Portion of Long-Term Debt	3,087	2,680	3,167	407	(487)
Net Long-Term Debt	\$ 37,512	\$ 37,880	\$ 39,920	\$ (368)	\$ (2,040)

The total net long-term debt at December 31, 2018, 2017, and 2016 was \$37.5 million, \$37.9 million, and \$39.9 million, respectively. The Series 2018A Bonds were issued for water tower construction and water distribution improvements. The Series 2018A Equipment Certificates of Indebtedness were issued for purchase of forklift

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2018 AND 2017
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Long-Term Obligations (Continued)

and service trucks. 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. The capital lease payable is related to acquisition of billing inserter machine in 2015 and vehicles in 2016.

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 2018 Operating Budget Analysis and the 2019 Operating Budget approved by the Commission is presented as follows:

	(In Thousands of Dollars)			
	2018 Budget	2018 Actual	Favorable (Unfavorable) Variance	2019 Budget
Utility Operating Revenue	\$ 24,946	\$ 26,424	\$ 1,478	\$ 25,868
Other Operating Revenue	384	528	144	409
Total Operating Revenue	25,330	26,952	1,622	26,277
Purchased Power	13,008	11,854	1,154	12,480
Other Operating Expense	8,078	8,138	(60)	8,141
Depreciation and Amortization Expense	4,139	4,431	(292)	4,286
Total Operating Expense	25,225	24,423	802	24,907
Operating Income	105	2,529	2,424	1,370
Net Nonoperating Revenue	446	703	257	558
Income Before Transfers and Contributed Capital	551	3,232	2,681	1,928
Contributed Capital	-	-	-	-
Operating Transfers to the City	(674)	(691)	(17)	(744)
Change in Net Position	\$ (123)	\$ 2,541	\$ 2,664	\$ 1,184

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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CAPITAL ASSETS		
Construction in Progress	\$ 666,591	\$ 93,886
In Service	<u>108,063,842</u>	<u>105,193,134</u>
Total Investment in Capital Assets	108,730,433	105,287,020
Less: Accumulated Depreciation	<u>(44,787,356)</u>	<u>(40,832,596)</u>
Net Capital Assets	63,943,077	64,454,424
RESTRICTED ASSETS		
Cash and Investments	5,338,512	4,614,503
Bonds and Notes Receivable	5,222,667	5,659,334
Notes Receivable - Interest	<u>66,600</u>	<u>66,700</u>
Total Restricted Assets	10,627,779	10,340,537
CURRENT ASSETS		
Cash and Investments	11,206,415	6,992,343
Accounts Receivable	3,383,214	4,062,438
Interest Receivable	48,089	23,605
Due from the City of Brainerd	995,640	1,001,887
Inventory	937,711	1,149,430
Prepaid Expenses	<u>133,559</u>	<u>160,387</u>
Total Current Assets	16,704,628	13,390,090
OTHER ASSETS		
Service Territory Acquisitions, Net of Accumulated Amortization	<u>229,638</u>	<u>241,621</u>
Total Assets	91,505,122	88,426,672
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	560,117	968,684
OPEB Related	<u>31,901</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>592,018</u>	<u>968,684</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 92,097,140</u></u>	<u><u>\$ 89,395,356</u></u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2018 AND 2017**

	2018	2017
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
NET POSITION		
Net Investment in Capital Assets	\$ 28,104,575	\$ 29,174,203
Restricted for Debt Service	8,033,299	8,112,081
Unrestricted	11,293,424	7,913,981
Total Net Position	47,431,298	45,200,265
LONG-TERM LIABILITIES		
Revenue Bonds Payable	18,072,400	16,929,800
General Obligation Equipment Certificates of Indebtedness	412,603	242,970
General Obligation Build America Bonds Payable	14,316,000	15,668,000
Capital Lease Payable	28,983	52,003
Compensated Absences	777,125	713,739
Net Pension Liability	2,956,866	3,460,092
Revenue Bond Premium	947,229	813,235
Other Postemployment Benefit Obligation	346,040	-
Total Long-Term Liabilities	37,857,246	37,879,839
CURRENT LIABILITIES		
Accounts and Contracts Payable	1,417,329	1,699,258
Electric Utility Revenue Bonds Payable	1,577,400	1,263,800
General Obligation Equipment Certificates of Indebtedness	135,367	78,498
General Obligation Sewer Revenue Notes Payable	-	-
General Obligation Build America Bonds Payable	1,352,000	1,310,000
Capital Lease Payable	23,020	27,915
Accrued Expenses		
Salaries and Withholding Taxes	152,873	135,056
Sales Taxes	87,685	81,803
Current Liabilities Payable from Restricted Assets:		
Bond Interest	348,900	311,200
Payable to City of Brainerd	376,077	251,217
Conservation Incentive Program Payable	221,484	217,168
Customer Deposits	326,030	312,904
Total Current Liabilities	6,018,165	5,688,819
Total Liabilities	43,875,411	43,568,658
DEFERRED INFLOWS OF RESOURCES		
Pension Related	790,431	626,433
Total Net Position, Liabilities and Deferred Inflows of Resources	\$ 92,097,140	\$ 89,395,356

BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

OPERATING REVENUES	<u>2018</u>	<u>2017</u>
Utility Revenues		
Residential	\$ 8,890,866	\$ 8,185,469
Commercial	10,323,258	9,518,588
Large Commercial	5,784,824	5,359,071
City of Brainerd	521,493	461,636
Internal Use	903,408	838,485
Total Utility Revenues	<u>26,423,849</u>	<u>24,363,249</u>
Other Operating Revenues		
Penalties	165,738	167,066
Other	362,639	367,400
Total Other Operating Revenues	<u>528,377</u>	<u>534,466</u>
Total Operating Revenues	26,952,226	24,897,715
OPERATING EXPENSES		
Generation, Production, and Treatment		
Salaries and Wages	1,035,370	896,865
Purchased Services	806,833	734,287
Supplies and Maintenance	145,031	149,233
Employee Benefits	358,682	469,734
Other Charges	64,331	59,738
Total Generation, Production, and Treatment Expenses	<u>2,410,247</u>	<u>2,309,857</u>
Purchased Power	11,854,449	12,754,343
Distribution and Collection		
Salaries and Wages	1,487,365	1,346,716
Purchased Services	608,199	461,542
Supplies and Maintenance	233,265	203,154
Employee Benefits	486,059	481,961
Other Charges	63,871	39,903
Total Distribution and Collection Expenses	<u>2,878,759</u>	<u>2,533,276</u>
Administration		
Salaries and Wages	1,091,057	1,058,720
Purchased Services	500,462	456,478
Supplies and Maintenance	101,753	95,997
Insurance and Bonds	265,461	251,312
Employee Benefits	570,789	523,463
Other Charges	319,248	268,679
Total Administration Expenses	<u>2,848,770</u>	<u>2,654,649</u>
Depreciation and Amortization	<u>4,430,554</u>	<u>4,025,469</u>
Total Operating Expenses	<u>\$ 24,422,779</u>	<u>\$ 24,277,594</u>

BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING INCOME (LOSS)	\$ 2,529,447	\$ 620,121
NONOPERATING REVENUE (EXPENSE)		
Interest Income - Investments	158,285	150,736
Interest Income - Notes Receivable	183,686	195,055
Bond Premium	87,115	68,866
Interest Expense	(1,187,070)	(1,086,409)
Local Option Sales Tax	1,333,922	1,315,565
Federal Grant Revenue - Build America Bond	118,803	122,452
Bond Issuance Costs	(44,481)	(102,462)
Gain on Disposal of Capital Assets	52,945	131,033
Net Nonoperating Revenue	<u>703,205</u>	<u>794,836</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	3,232,652	1,414,957
CONTRIBUTED CAPITAL	-	988,568
TRANSFERS TO THE CITY	<u>(691,284)</u>	<u>(672,823)</u>
CHANGE IN NET POSITION	2,541,368	1,730,702
Net Position - Beginning	45,200,265	43,469,563
Change in Accounting Principle	<u>(310,335)</u>	<u>-</u>
Net Position - Beginning, as Restated	<u>44,889,930</u>	<u>43,469,563</u>
NET POSITION - ENDING	<u><u>\$ 47,431,298</u></u>	<u><u>\$ 45,200,265</u></u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 27,651,421	\$ 23,768,218
Cash Payments to Employees for Services	(3,532,589)	(3,262,173)
Cash Payments to Other Suppliers of Goods or Services	(16,240,504)	(16,562,701)
Net Cash Provided by Operating Activities	7,878,328	3,943,344
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Primary Government	(566,424)	(607,618)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to Utility Plant	(3,814,715)	(3,032,082)
Proceeds from Local Option Sales Tax	1,337,303	1,303,275
Principal Paid on Long-Term Debt	(2,652,298)	(7,645,200)
Interest Paid on Long-Term Debt	(1,280,966)	(1,317,837)
Proceeds from Revenue Bonds	2,873,923	6,035,000
Proceeds from Equipment Certificates	327,623	-
Principal Received on Notes Receivable	436,667	495,333
Federal Grant Revenue - Build America Bond	118,803	125,552
Principal Paid on Capital Lease	(27,915)	(26,931)
Proceeds from Sale of Utility Plant	52,945	131,033
Net Cash Used by Capital and Related Financing Activities	(2,628,630)	(3,931,857)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	254,806	349,511
Purchase of Investments	(11,712,327)	(1,453,989)
Redemption of Investments	8,934,097	275,471
Net Cash Used by Investing Activities	(2,523,424)	(829,007)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,159,850	(1,425,138)
Cash and Cash Equivalents - Beginning	3,454,875	4,880,013
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 5,614,725</u>	<u>\$ 3,454,875</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 2,529,447	\$ 620,121
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	4,430,554	4,025,469
Revenue Reduced for Uncollectible Accounts	59,227	38,351
(Increase) Decrease in Assets:		
Accounts Receivable	675,870	(1,173,573)
Prepaid Expenses	26,828	(15,118)
Inventories	211,719	(280,064)
Change in Deferred Outflows of Resources	376,666	862,991
Increase (Decrease) in Liabilities:		
Accounts Payable	(232,987)	350,518
Accrued Liabilities	36,825	58,752
Conservation Incentive Program Payable	4,316	(697)
Accrued Compensated Absences	63,386	26,149
Other Postemployment Benefit Obligation	35,705	(5,509)
Change in Pension Related Items	(503,226)	(762,050)
Change in Deferred Inflows of Resources	163,998	198,004
Net Cash Provided by Operating Activities	<u>\$ 7,878,328</u>	<u>\$ 3,943,344</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and Investments - Current Assets	\$ 11,206,415	\$ 6,992,343
Cash and Investments - Restricted Assets	<u>5,338,512</u>	<u>4,614,503</u>
Cash and Investments - Balance Sheets	16,544,927	11,606,846
Less: Investments not Meeting the Definition of Cash Equivalents	<u>10,930,202</u>	<u>8,151,971</u>
Cash and Cash Equivalents - Ending	<u>\$ 5,614,725</u>	<u>\$ 3,454,875</u>
NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Utility Plant on Account	\$ (167,172)	\$ (215,482)
Net Decrease in Fair Value of Investments	(62,780)	(30,471)
Capital Contribution of Utility Plant	-	988,568

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**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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, 2018 AND 2017**

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.

During the year, BPU prospectively implemented GASB No. 89, *Account for Interest Cost Incurred Before the End of a Construction Period*. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period the cost is incurred. The amount of capitalized interest for 2017 was \$160,303.

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, 2018 and 2017 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, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. BPU will not recognize the related outflow until a future event occurs.

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 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 that time.

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.

Other Postemployment Benefits Liability

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of BPU's Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

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

Electric Power Costs

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

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, 2018 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Electric	\$ 40,107,463	\$ 1,353,210	\$ 33,019	\$ 41,427,654
Water	23,162,192	1,222,501	25,446	24,359,247
Wastewater Treatment	36,123,583	324,726	129,153	36,319,156
General Plant	5,799,896	431,851	273,962	5,957,785
Construction in Progress	93,886	2,503,898	1,931,193	666,591
	<u>105,287,020</u>	<u>5,836,186</u>	<u>2,392,773</u>	<u>108,730,433</u>
Accumulated Depreciation	<u>(40,832,596)</u>	<u>(4,416,340)</u>	<u>(461,580)</u>	<u>(44,787,356)</u>
Net Capital Assets	<u>\$ 64,454,424</u>	<u>\$ 1,419,846</u>	<u>\$ 1,931,193</u>	<u>\$ 63,943,077</u>

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	34,979,059	1,293,785	149,261	36,123,583
General Plant	5,734,423	121,239	55,766	5,799,896
Construction in Progress	6,887,602	2,229,623	9,023,339	93,886
	<u>101,564,656</u>	<u>13,122,097</u>	<u>9,399,733</u>	<u>105,287,020</u>
Accumulated Depreciation	<u>(37,161,383)</u>	<u>(4,012,872)</u>	<u>(341,659)</u>	<u>(40,832,596)</u>
Net Capital Assets	<u>\$ 64,403,273</u>	<u>\$ 9,109,225</u>	<u>\$ 9,058,074</u>	<u>\$ 64,454,424</u>

Capital assets not being depreciated totaled \$1,669,549 and \$1,669,549 at December 31, 2018 and 2017, respectively.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 RESTRICTED ASSETS

Cash and Investments

At December 31, 2018 and 2017, restricted cash and investments consisted of the following:

	2018	2017
Customer Deposits	\$ 326,030	\$ 312,904
City of Brainerd Contribution	376,077	251,217
Conservation Incentive Program	221,484	217,168
Escrow for Franchise Fees	149,266	-
Electric Utility Revenue Bonds Debt Service Reserve	1,134,545	1,134,545
General Obligation Revenue Notes and Bonds Debt Service Reserve	3,131,110	2,698,669
Total Restricted Cash and Investments	<u>\$ 5,338,512</u>	<u>\$ 4,614,503</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. Escrow for franchise fees is restricted by Crow Wing County District Court related to franchise fees collected on behalf of City of Baxter.

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 6.

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 6). The obligation of Baxter to make scheduled payments to Brainerd pursuant to the Baxter Notes is absolute and unqualified.

Note receivable activity for the year ended December 31, 2018, is as follows:

	Note No.1	Note No.2	Total
Beginning Balance	\$ -	\$ 5,659,334	\$ 5,659,334
Payments Received	-	(436,667)	(436,667)
Ending Balance	<u>\$ -</u>	<u>\$ 5,222,667</u>	<u>\$ 5,222,667</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

Notes Receivable (Continued)

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

	Note No.1	Note No.2	Total
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>

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, 2018 and 2017 of \$66,600 and \$66,700, respectively, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the years ended December 31, 2018 and 2017 was \$183,686 and \$195,055, respectively.

NOTE 4 DEPOSITS AND INVESTMENTS

Cash and investments are presented at December 31, 2018 and 2017, as follows:

	2018	2017
Restricted Cash and Investments	\$ 5,338,512	\$ 4,614,503
Current Cash and Investments	11,206,415	6,992,343
Total	<u>\$ 16,544,927</u>	<u>\$ 11,606,846</u>

Cash and investments at December 31, 2018 and 2017, consisted of the following:

	2018	2017
Petty Cash	\$ 1,500	\$ 1,500
Deposits	5,613,225	3,453,375
Investments	10,930,202	8,151,971
Total	<u>\$ 16,544,927</u>	<u>\$ 11,606,846</u>

Deposits

In accordance with Minnesota Statutes, BPU maintains deposits at financial institutions that are authorized by the Brainerd City Council. 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, 2018, 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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

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, 2018 and 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.

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, 2018 by maturity:

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Risk Disclosures (Continued)

Investment Type	Investment Maturities (in Years)			Fair Value	% of Investments
	Less Than 1	1-5	6-10		
Negotiable CDs	\$ 1,825,975	\$ 4,049,135	\$ 449,724	\$ 6,324,834	N/A
FNMA	-	287,960	1,491,332	1,779,292	16.3%
FHLMC	-	-	964,108	964,108	8.8%
FFCB	-	-	796,968	796,968	7.3%
Commercial Paper	1,065,000	-	-	1,065,000	9.7%
Total	<u>\$ 2,890,975</u>	<u>\$ 4,337,095</u>	<u>\$ 3,702,132</u>	<u>\$ 10,930,202</u>	<u>42.1%</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, 2018 are as follows:

Investment Type	S & P Rating
Negotiable CDs	NA
FNMA	AA+
FHLMC	AA+
FFCB	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, 2018, are disclosed above. All negotiable CD's by issuer are less than 5% of total investments.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, 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.

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

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, 2018 and 2017, consisted of the following:

Type	Level	2018	2017
Negotiable CDs	2	\$ 6,324,834	\$ 4,330,136
FNMA Securities	2	1,779,292	1,775,090
FHLMC Securities	2	964,108	967,756
FFCB Securities	2	796,968	-
Commercial Paper	1	1,065,000	1,078,989
Total Investments		<u>\$ 10,930,202</u>	<u>\$ 8,151,971</u>

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, 2018 and 2017, BPU owed the City the following:

	2018	2017
Monthly Operating Contribution	\$ 56,829	\$ 55,103
Reimbursement of Other Costs	139,877	39,096
Wastewater Collection and Storm Sewer Charges	179,371	157,018
Total	<u>\$ 376,077</u>	<u>\$ 251,217</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT

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

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

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

On December 15, 2014, the City of Brainerd, on behalf of BPU, issued \$1,700,000 in General Obligation 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 General Obligation 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 General Obligation 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.

On March 22, 2018, the City of Brainerd, on behalf of BPU, issued \$2,720,000 in General Obligation Utility Revenue Bonds, Series 2018A, with interest rates from 3.0% to 5.0%, maturing in February 2028, for construction of new elevated water tower and reconstruction of business highway 371. Also as part of this bond

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

issue, the City's portion related to sewer collection other street improvements are \$1,315,000. The total amount of the bond is \$4,035,000.

On March 22, 2018, the City of Brainerd, on behalf of BPU, issued \$305,000 in General Obligation Equipment Certificates of Indebtedness, Series 2018B, with an interest rate of 5.0%, maturing in February 2023, for utility equipment purchased. The electric portion is \$97,600, the water portion is \$79,300, and the wastewater treatment portion is \$128,100. Also as part of this debt issue, the City's portion related to its equipment purchases is \$955,000. The total amount of the debt issue is \$1,260,000.

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, 2018 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, 2018 was \$1,858,898. The interest payments are made semi-annually on February 20 and August 20, and principal payments on August 20.

General Obligation 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, 2018 was \$209,252. The interest payments are made semi-annually on February 1 and August 1, and principal payments on February 1.

General Obligation Utility Revenue Bonds, Series 2016A

The resolutions authorizing the issuance of utility revenue bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. The amount shown as restricted cash and investments as of December 31, 2018 was \$432,803 (Water portion) and \$103,873 (Wastewater portion). The interest payments are made semi-annually on April 1 and October 1, and principal payments on October 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, 2018 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, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

General Obligation Utility Revenue Bonds, Series 2018A

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, 2018 was \$363,090. 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 2018A

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, 2018 was \$23,856 (Electric portion), \$19,383 (Water portion), and \$31,311 (Wastewater Treatment 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, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Long-term bonds and notes debt consists of the following as of December 31, 2018 and 2017:

Description of Issue	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding	
					2018	2017
G.O. Build America Bonds, Series 2009	3.233%	5/4/2009	8/20/2028	25,966,788	\$ 15,668,000	\$ 16,978,000
Electric Utility Revenue Bonds, Series 2014A	2.0 - 4.0%	10/9/2014	12/1/2029	6,070,000	4,660,000	5,025,000
G.O. Water Utility Revenue Bonds, Series 2015A	2.25 - 4.0%	12/15/2014	2/1/2025	1,700,000	1,215,000	1,380,000
G.O. Utility Revenue Bonds, Series 2016A						
Water	1.625 - 5.0%	7/20/2016	10/1/2031	4,845,000	4,395,000	4,640,000
Sewer	1.625 - 5.0%	7/20/2016	10/1/2031	1,162,800	1,054,800	1,113,600
G.O. Equipment Certificates of Indebtedness Series 2016B						
Electric	2.0%	7/20/2016	2/1/2021	200,917	121,485	160,734
Water	2.0%	7/20/2016	2/1/2021	200,918	121,485	160,734
Electric Utility Revenue and Refunding Bonds, Series 2017A	2.25%	10/18/2017	12/1/2027	6,035,000	5,605,000	6,035,000
G.O. Utility Revenue Bonds (Water), Series 2018A	3.0 - 5.0%	3/22/2018	2/1/2028	2,720,000	2,720,000	-
G.O. Equipment Certificates of Indebtedness Series 2018A						
Electric	5.0%	3/22/2018	2/1/2023	97,600	97,600	-
Water	5.0%	3/22/2018	2/1/2023	79,300	79,300	-
Sewer	5.0%	3/22/2018	2/1/2023	128,100	128,100	-
Total Debt				<u>\$ 46,181,423</u>	<u>35,865,770</u>	<u>35,493,068</u>
<u>Less Amount Due Within One Year</u>						
G.O. Build America Bonds					1,352,000	1,310,000
Electric Utility Revenue Bonds, Series 2014A					375,000	365,000
Water Utility Revenue Bonds, Series 2015A					165,000	165,000
G.O. Utility Revenue Bonds (Water), Series 2016A					260,000	245,000
G.O. Utility Revenue Bonds (Sewer), Series 2016A					62,400	58,800
G.O. Equipment Certificates of Indebtedness (Electric), Series 2016B					40,184	39,249
G.O. Equipment Certificates of Indebtedness (Water), Series 2016B					40,183	39,249
Electric Utility Revenue and Refunding Bonds, Series 2017A					475,000	430,000
G.O. Utility Revenue Bonds (Water), Series 2018A					240,000	-
G.O. Equipment Certificates of Indebtedness (Electric), Series 2018A					17,600	-
G.O. Equipment Certificates of Indebtedness (Water), Series 2018A					14,300	-
G.O. Equipment Certificates of Indebtedness (Sewer), Series 2018A					23,100	-
Net Long - Term Debt					<u>\$ 32,801,003</u>	<u>\$ 32,840,770</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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>			
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	1,536,000	323,009	1,859,009
2024-2028	8,455,000	837,412	9,292,412
Total	<u>\$ 15,668,000</u>	<u>\$ 2,918,623</u>	<u>\$ 18,586,623</u>
<u>Electric Utility Revenue Bonds, Series 2014A</u>			
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	405,000	107,070	512,070
2024-2028	2,225,000	333,435	2,558,435
2029	495,000	19,800	514,800
Total	<u>\$ 4,660,000</u>	<u>\$ 1,012,585</u>	<u>\$ 5,672,585</u>
<u>G.O. Water Utility Revenue Bonds, Series 2015A</u>			
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	175,000	11,263	186,263
2024-2025	365,000	8,044	373,044
Total	<u>\$ 1,215,000</u>	<u>\$ 125,509</u>	<u>\$ 1,340,509</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
G.O. Utility Revenue Bonds, Series 2016A (Water Portion)			
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	315,000	94,444	409,444
2024-2028	1,790,000	256,631	2,046,631
2029-2031	1,175,000	50,675	1,225,675
Total	<u>\$ 4,395,000</u>	<u>\$ 922,276</u>	<u>\$ 5,317,276</u>

G.O. Utility Revenue Bonds, Series 2016A (Wastewater Portion)			
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	75,600	22,667	98,267
2024-2028	429,600	61,592	491,192
2029-2031	282,000	12,162	294,162
Total	<u>\$ 1,054,800</u>	<u>\$ 221,347</u>	<u>\$ 1,276,147</u>

G.O. Equipment Certificates of Indebtedness (Electric Portion) - Series 2016B			
2019	\$ 40,184	\$ 2,028	\$ 42,212
2020	40,183	1,224	41,407
2021	41,118	411	41,529
Total	<u>\$ 121,485</u>	<u>\$ 3,663</u>	<u>\$ 125,148</u>

G.O. Equipment Certificates of Indebtedness (Water Portion) - Series 2016B			
2019	\$ 40,183	\$ 2,028	\$ 42,211
2020	40,184	1,224	41,408
2021	41,118	411	41,529
Total	<u>\$ 121,485</u>	<u>\$ 3,663</u>	<u>\$ 125,148</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
Electric Utility Revenue and Refunding Bonds, Series 2017A			
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	635,000	77,738	712,738
2024-2027	2,820,000	159,863	2,979,863
Total	<u>\$ 5,605,000</u>	<u>\$ 674,327</u>	<u>\$ 6,279,327</u>
G.O. Water Utility Revenue Bonds, Series 2018A			
2019	\$ 240,000	\$ 105,800	\$ 345,800
2020	230,000	94,050	324,050
2021	245,000	82,175	327,175
2022	250,000	69,800	319,800
2023	265,000	56,925	321,925
2024-2028	1,490,000	117,100	1,607,100
Total	<u>\$ 2,720,000</u>	<u>\$ 525,850</u>	<u>\$ 3,245,850</u>
G.O. Equipment Certificates of Indebtedness (Electric Portion) - Series 2018A			
2019	\$ 17,600	\$ 4,440	\$ 22,040
2020	19,200	3,520	22,720
2021	19,200	2,560	21,760
2022	20,800	1,560	22,360
2023	20,800	520	21,320
Total	<u>\$ 97,600</u>	<u>\$ 12,600</u>	<u>\$ 110,200</u>
G.O. Equipment Certificates of Indebtedness (Water Portion) - Series 2018A			
2019	\$ 14,300	\$ 3,608	\$ 17,908
2020	15,600	2,860	18,460
2021	15,600	2,080	17,680
2022	16,900	1,268	18,168
2023	16,900	423	17,323
Total	<u>\$ 79,300</u>	<u>\$ 10,239</u>	<u>\$ 89,539</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

G.O. Equipment Certificates of Indebtedness (Sewer Portion) - Series 2018A			
2019	\$ 23,100	\$ 5,828	\$ 28,928
2020	25,200	4,620	29,820
2021	25,200	3,360	28,560
2022	27,300	2,048	29,348
2023	27,300	682	27,982
Total	<u>\$ 128,100</u>	<u>\$ 16,538</u>	<u>\$ 144,638</u>

Long-term debt activity for the year ended December 31, 2018, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
G.O. Build America Bonds	\$ 16,978,000	\$ -	\$ 1,310,000	\$ 15,668,000
Electric Utility Revenue Bonds, Series 2014A	5,025,000	-	365,000	4,660,000
G.O. Water Utility Revenue Bonds, Series 2015A	1,380,000	-	165,000	1,215,000
G.O. Utility Revenue Bonds, Series 2016A	5,753,600	-	303,800	5,449,800
G.O. Equipment Certificates of Indebtedness, Series 2016B	321,468	-	78,498	242,970
Electric Utility Revenue and Refunding Bonds, Series 2017A	6,035,000	-	430,000	5,605,000
G.O. Utility Revenue Bonds, Series 2018A	-	2,720,000	-	2,720,000
G.O. Equipment Certificates of Indebtedness, Series 2018A	-	305,000	-	305,000
Revenue Bond Premium				
Series 2014A	180,446	-	15,357	165,089
Series 2015A	79,287	-	11,327	67,960
Series 2016A	546,520	-	40,235	506,285
Series 2016B	6,982	-	1,948	5,034
Series 2018A	-	221,026	18,165	202,861
Capital Lease Payable	79,918	-	27,915	52,003
Compensated Absences	713,739	469,791	406,405	777,125
	<u>\$ 37,099,960</u>	<u>\$ 3,715,817</u>	<u>\$ 3,173,650</u>	<u>\$ 37,642,127</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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

	Beginning Balance	Additions	Reductions	Ending 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>

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, 2018 and 2017, with related accumulated depreciation of \$179,267 and \$165,988, respectively. Depreciation expense related to this asset for the years ended December 31, 2018 and 2017 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 \$46,464 and \$34,343 at December 31, 2018 and 2017, respectively. Depreciation expense related to this asset for the years ended December 31, 2018 and 2017 was \$12,121 and \$12,121, respectively.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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 \$41,029 and \$24,067 at December 31, 2018 and 2017, respectively. Depreciation expense related to these assets for the year ended December 31, 2018 and 2017 was \$16,962 and \$14,187, respectively.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

Year Ended December 31,	
2019	\$ 33,424
2020	22,300
2021	5,191
Total Minimum Lease Payments	\$ 60,915
Less: Amount Representing Interest	8,912
Present Value of Minimum Lease Payments	<u>\$ 52,003</u>

NOTE 8 RISK MANAGEMENT

BPU is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. BPU participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for all its insurance except for employee health insurance which is through Health Partners. The LMCIT operates as a common risk management and insurance program for Minnesota Cities. The agreement for formation of the LMCIT 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

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, 2018 AND 2017**

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. 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years are given 2.5% increases. If the plan has not exceeded 90% funded, or have fallen below 80%, are given 1% increases. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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 2018 while BPU was required to contribute 7.50%. The BPU's contributions to the General Employees Fund for the year ended December 31, 2018 and 2017, were \$276,672 and \$258,176, respectively. BPU's contributions were equal to the required contributions as set by state statute.

General Employees Fund Pension Costs

At December 31, 2018 and 2017, BPU reported a liability of \$2,956,866 and \$3,460,092, respectively, for its proportionate share of the General Employees Fund's net pension liability. BPU's 2018 net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. 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 \$97,081 at December 31, 2018 and \$43,509 at December 31, 2017. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018 BPU's proportion was 0.0533 percent which was a decrease of .0009 percent from its proportion measured as of June 30, 2017.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

General Employees Fund Pension Costs (Continued)

BPU's Proportionate Share of the Net Pension Liability	\$ 2,956,866
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with BPU	97,081
	<u>\$ 3,053,947</u>

For the year ended December 31, 2018 and 2017, BPU recognized pension expense of \$346,250 and \$557,506 for its proportionate share of the General Employees Plan's pension expense. In addition, BPU recognized an additional \$22,639 in 2018 and \$1,257 in 2017 as pension expense (and other revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, 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	\$ 78,263	\$ 86,239
Changes in Actuarial Assumptions	282,456	332,235
Difference Between Projected and Actual Investment Earnings	-	302,145
Changes in Proportion	62,130	69,812
Contributions Paid to PERA Subsequent to the Measurement Date	137,268	-
Total	<u>\$ 560,117</u>	<u>\$ 790,431</u>

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 to the Measurement Date	129,426	-
Total	<u>\$ 968,684</u>	<u>\$ 626,433</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

General Employees Fund Pension Costs (Continued)

\$137,268 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, 2019. 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
2019	\$ 90,472
2020	(142,637)
2021	(253,702)
2022	(61,715)

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	
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 after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2018, 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. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018 in the General Employees Fund:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.5 percent. 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, 2018 and 2017 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, 2018		
	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	\$ 4,805,285	\$ 2,956,866	\$ 1,431,048
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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

Plan Description

BPU operates a single-employer retiree benefit plan (the Plan) that provides health insurance to eligible employees and their spouses through BPU's health insurance plan. There are 47 active employees, 1 nonactive employee and no inactive employees entitled to but not yet receiving benefits. Benefit and eligibility provisions are established through negotiations between BPU and various unions representing BPU employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

Funding Policy

BPU has no assets accumulated in a trust that meets the criteria in GASB No. 75. Contribution requirements are negotiated between BPU and union representatives. The eligibility for, amount of, duration of, and BPU's contribution to the cost of the benefits provided varies by contract and date of retirement. BPU is funding this liability on a pay-as-you-go basis. For fiscal year 2018, BPU contributed \$35,705 to the plan.

Actuarial Methods and Assumptions

BPU's OPEB liability was measured as of January 2018, and the total OPEB liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<u>Assumptions</u>	
Inflation	2.50%
Salary Increase	3.00%
Health Care Tread Rates	6.5% Decreasing to 5.00% Over 6 Yrs.

Mortality Rates were based on the RP-2000 mortality tables with projected monthly improvements based on Scale AA, and other adjustments. The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2017 to December 31, 2017. The discount rate used to measure the total OPEB liability was 3.30%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

Since the most recent GASB 45 valuation, the following changes have been made:

- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2014 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The retirement and withdrawal tables for all employees were updated.
-

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

- The retiree plan participation assumption for participants not eligible for a pre-65 subsidy was changed from 50% to 40%. The percent of married retirees electing spouse coverage was changed from 25% to 50%.
- The discount rate was changed from 4.00% to 3.30%.

Changes in Net OPEB Liability

	Total OPEB Liability
Balance at December 31, 2017, as Restated	\$ 370,966
Changes for the Year:	
Service Cost	23,674
Interest	12,031
Benefit Payments	(60,631)
Net Change in Total OPEB Liability	(24,926)
Balance at December 31, 2018	\$ 346,040

The following presents the net OPEB liability of BPU, as well as what BPU's liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease 2.3%	Discount Rate 3.3%	1% Increase 4.3%
Net OPEB Liability	\$ 367,282	\$ 346,040	\$ 325,738

The following presents the net OPEB liability of BPU, as well as what BPU's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.5% decreasing to 4.00% over 6 years) or 1% higher (7.5% decreasing to 6.00% over 6 years) than the current healthcare cost trend rates:

Medical Trend Rate	1% Decrease (5.5% Decreasing to 4.0%)	Current Trend Rates (6.5% Decreasing to 5.0%)	1% Increase (7.5% Decreasing to 6.0%)
Net OPEB Liability	\$ 315,039	\$ 346,040	\$ 382,250

For the year ended December 31, 2018, BPU recognized OPEB expense of \$35,705. At December 31, 2018, BPU reported no deferred inflows of resources, and \$31,901 in deferred outflows of resources resulting from BPU contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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.

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.

Construction Commitment

At December 31, 2018, BPU was committed under a construction contract related to the construction of new 500,000 gallon elevated water tower. Total contract price is \$1,737,900 with \$272,900 being paid as of December 31, 2018, and the remaining commitment being \$1,465,000. The project is being financed by 2018A General Obligation Utility Revenue Bonds.

NOTE 13 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended December 31, 2018, BPU adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This pronouncement requires the restatement of the December 31, 2017, net position as follows:

	Department			
	Electric	Water	Wastewater	Total
Net Position, 12/31/2017	\$ 15,255,067	\$ 10,474,283	\$ 19,470,915	\$ 45,200,265
Cululative Affect of Application of GASB 75, OPEB Liability	(186,201)	(62,067)	(62,067)	(310,335)
Net Position, 12/31/2017, as Restated	<u>\$ 15,068,866</u>	<u>\$ 10,412,216</u>	<u>\$ 19,408,848</u>	<u>\$ 44,889,930</u>

See accompanying Notes to Financial Statements.

REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2018**

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
2018	0.0533%	\$ 2,956,866	\$ 97,081	\$ 3,053,947	\$ 3,584,388	82.49%	79.53%
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, 2018**

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)
2018	\$ 276,672	\$ 276,672	\$ -	\$ 3,584,388	7.50%
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%

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF CHANGES IN BPU'S OPEB LIABILITY AND RELATED RATIOS
YEAR ENDED DECEMBER 31, 2018**

	Measurement Date December 31, 2018
Total OPEB Liability	
Service Cost	\$ 23,674
Interest	12,031
Benefit Payments	(60,631)
	<hr/>
Net Change in Total OPEB Liability	(24,926)
Total OPEB - Beginning of the Year	370,966
Total OPEB - End of the Year	<u><u>\$ 346,040</u></u>
Covered-Employee Payroll	\$ 3,310,652
BPU's OPEB Liability as a Percentage of Covered-Employee Payroll	10%

Note1: Information is presented prospectively and an accumulation of 10 years will be provided.

Note2: No assets are accumulated in a trust.

SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENT OF NET POSITION BY DEPARTMENT
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2017)**

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
CAPITAL ASSETS					
Construction in Progress	\$ 240,484	\$ 426,107	\$ -	\$ 666,591	\$ 93,886
In Service	44,611,753	25,581,697	37,870,392	108,063,842	105,193,134
Total Investment in Capital Assets	44,852,237	26,007,804	37,870,392	108,730,433	105,287,020
Less: Accumulated Depreciation	(20,710,991)	(10,309,690)	(13,766,675)	(44,787,356)	(40,832,596)
Net Capital Assets	24,141,246	15,698,114	24,103,717	63,943,077	64,454,424
RESTRICTED ASSETS					
Cash and Investments					
Customer Deposits	326,030	-	-	326,030	312,904
Escrow for Franchise Fees	149,266	-	-	149,266	-
City of Brainerd Contribution	68,461	101,403	206,213	376,077	251,217
Conservation Incentive Program	221,484	-	-	221,484	217,168
Debt Service Reserve	1,202,723	1,068,850	1,994,082	4,265,655	3,833,214
Total Restricted Cash and Investments	1,967,964	1,170,253	2,200,295	5,338,512	4,614,503
Bonds and Notes Receivable	-	-	5,222,667	5,222,667	5,659,334
Notes Receivable - Interest	-	-	66,600	66,600	66,700
Total Restricted Assets	1,967,964	1,170,253	7,489,562	10,627,779	10,340,537
CURRENT ASSETS					
Cash and Investments	3,171,443	2,690,115	5,344,857	11,206,415	6,992,343
Accounts Receivable	2,525,841	371,907	485,466	3,383,214	4,062,438
Interest Receivable	8,574	13,596	25,919	48,089	23,605
Due from the City of Brainerd	33,045	700,280	262,315	995,640	1,001,887
Inventory	824,307	113,404	-	937,711	1,149,430
Prepaid Expenses	131,121	-	2,438	133,559	160,387
Total Current Assets	6,694,331	3,889,302	6,120,995	16,704,628	13,390,090
OTHER ASSETS					
Service Territory Acquisitions, Net of Accumulated Amortization	229,638	-	-	229,638	241,621
Total Assets	33,033,179	20,757,669	37,714,274	91,505,122	88,426,672
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related	336,071	112,023	112,023	560,117	968,684
OPEB Related	19,141	6,380	6,380	31,901	-
Total Deferred Outflows of Resources	355,212	118,403	118,403	592,018	968,684
Total Assets and Deferred Outflows of Resources	\$ 33,388,391	\$ 20,876,072	\$ 37,832,677	\$ 92,097,140	\$ 89,395,356

BRainerd PUBLIC UTILITIES
BRainerd, MINNESOTA
COMBINING STATEMENT OF NET POSITION BY DEPARTMENT (CONTINUED)
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2017)

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2018	2017
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES					
NET POSITION					
Net Investment in Capital Assets	\$ 14,472,020	\$ 6,492,735	\$ 7,139,820	\$ 28,104,575	\$ 29,174,203
Restricted for Debt Service	-	962,150	7,071,149	8,033,299	8,112,081
Unrestricted	3,287,133	2,834,964	5,171,327	11,293,424	7,913,981
Total Net Position	17,759,153	10,289,849	19,382,296	47,431,298	45,200,265
LONG-TERM LIABILITIES					
Revenue Bonds Payable	9,415,000	7,665,000	992,400	18,072,400	16,929,800
G.O. Equipment Certificates of Indebtedness	161,301	146,302	105,000	412,603	242,970
G.O. Build America Bonds Payable	-	-	14,316,000	14,316,000	15,668,000
Capital Lease Payable	20,285	4,349	4,349	28,983	52,003
Compensated Absences	436,030	166,446	174,649	777,125	713,739
Net Pension Liability	1,774,120	591,373	591,373	2,956,866	3,460,092
Revenue Bond Premium	173,756	667,535	105,938	947,229	813,235
Other Postemployment Benefit Obligation	207,624	69,208	69,208	346,040	-
Total Long-Term Liabilities	12,188,116	9,310,213	16,358,917	37,857,246	37,879,839
CURRENT LIABILITIES					
Accounts and Contracts Payable	1,222,460	152,074	42,795	1,417,329	1,699,258
Revenue Bonds Payable	850,000	665,000	62,400	1,577,400	1,263,800
G.O. Equipment Certificates of Indebtedness	57,784	54,483	23,100	135,367	78,498
G.O. Build America Bonds Payable	-	-	1,352,000	1,352,000	1,310,000
Capital Lease Payable	17,600	2,710	2,710	23,020	27,915
Accrued Expenses					
Salaries and Withholding Taxes	87,544	33,369	31,960	152,873	135,056
Sales Taxes	85,500	2,185	-	87,685	81,803
Current Liabilities Payable from Restricted Assets:					
Bond Interest	30,000	106,700	212,200	348,900	311,200
Payable to City of Brainerd	68,461	101,403	206,213	376,077	251,217
Conservation Incentive Program Payable	221,484	-	-	221,484	217,168
Customer Deposits	326,030	-	-	326,030	312,904
Total Current Liabilities	2,966,863	1,117,924	1,933,378	6,018,165	5,688,819
Total Liabilities	15,154,979	10,428,137	18,292,295	43,875,411	43,568,658
DEFERRED INFLOWS OF RESOURCES					
Pension Related	474,259	158,086	158,086	790,431	626,433
Total Net Position, Liabilities and Deferred Inflows of Resources	\$ 33,388,391	\$ 20,876,072	\$ 37,832,677	\$ 92,097,140	\$ 89,395,356

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2017)**

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2018	2017
OPERATING REVENUES					
Utility Revenues					
Residential	\$ 6,293,569	\$ 1,217,805	\$ 1,379,492	\$ 8,890,866	\$ 8,185,469
Commercial	7,856,737	1,113,973	1,352,548	10,323,258	9,518,588
Large Commercial	5,784,824	-	-	5,784,824	5,359,071
City of Brainerd	413,591	98,199	9,703	521,493	461,636
Internal Use	833,931	68,893	584	903,408	838,485
Total Utility Revenues	21,182,652	2,498,870	2,742,327	26,423,849	24,363,249
Other Operating Revenues					
Penalties	118,029	19,333	28,376	165,738	167,066
Other	248,149	79,994	34,496	362,639	367,400
Total Other Operating Revenues	366,178	99,327	62,872	528,377	534,466
Total Operating Revenues	21,548,830	2,598,197	2,805,199	26,952,226	24,897,715
OPERATING EXPENSES					
Generation, Production, and Treatment					
Salaries and Wages	385,210	230,144	420,016	1,035,370	896,865
Purchased Services	8,168	116,896	681,769	806,833	734,287
Supplies and Maintenance	15,573	44,306	85,152	145,031	149,233
Employee Benefits	128,138	89,869	140,675	358,682	469,734
Other Charges	36,486	169	27,676	64,331	59,738
Total Generation, Production, and Treatment Expenses	573,575	481,384	1,355,288	2,410,247	2,309,857
Purchased Power	11,854,449	-	-	11,854,449	12,754,343
Distribution and Collection					
Salaries and Wages	1,052,898	305,989	128,478	1,487,365	1,346,716
Purchased Services	237,072	240,967	130,160	608,199	461,542
Supplies and Maintenance	153,839	67,779	11,647	233,265	203,154
Employee Benefits	328,545	110,397	47,117	486,059	481,961
Other Charges	45,816	17,987	68	63,871	39,903
Total Distribution and Collection Expenses	1,818,170	743,119	317,470	2,878,759	2,533,276

BRainerd PUBLIC UTILITIES
BRainerd, MINNESOTA
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2018	2017
OPERATING EXPENSES (CONTINUED)					
Administration					
Salaries and Wages	\$ 633,183	\$ 237,728	\$ 220,146	\$ 1,091,057	\$ 1,058,720
Purchased Services	370,279	71,148	59,035	500,462	456,478
Supplies and Maintenance	65,229	22,732	13,792	101,753	95,997
Insurance and Bonds	141,438	53,415	70,608	265,461	251,312
Employee Benefits	329,568	123,338	117,883	570,789	523,463
Other Charges	239,929	38,748	40,571	319,248	268,679
Total Administration Expenses	1,779,626	547,109	522,035	2,848,770	2,654,649
Depreciation and Amortization	1,928,667	1,004,701	1,497,186	4,430,554	4,025,469
Total Operating Expenses	17,954,487	2,776,313	3,691,979	24,422,779	24,277,594
OPERATING INCOME (LOSS)	3,594,343	(178,116)	(886,780)	2,529,447	620,121
NONOPERATING REVENUE (EXPENSE)					
Interest Income - Investments	43,378	60,656	54,251	158,285	150,736
Interest Income - Notes Receivable	-	-	183,686	183,686	195,055
Bond Premium	18,482	60,093	8,540	87,115	68,866
Interest Expense	(309,804)	(284,686)	(592,580)	(1,187,070)	(1,086,409)
Local Option Sales Tax	-	260,013	1,073,909	1,333,922	1,315,565
Federal Grant Revenue - Build America Bond	-	-	118,803	118,803	122,452
Bond Issuance Costs	(1,437)	(41,162)	(1,882)	(44,481)	(102,462)
Gain (Loss) on Disposal of Capital Assets	36,609	835	15,501	52,945	131,033
Net Nonoperating Revenue (Expense)	(212,772)	55,749	860,228	703,205	794,836
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	3,381,571	(122,367)	(26,552)	3,232,652	1,414,957
CONTRIBUTED CAPITAL	-	-	-	-	988,568
TRANSFERS TO THE CITY	(691,284)	-	-	(691,284)	(672,823)
CHANGE IN NET POSITION	\$ 2,690,287	\$ (122,367)	\$ (26,552)	\$ 2,541,368	\$ 1,730,702

**BRainerd Public Utilities
Brainerd, Minnesota
Schedule of Capital Assets and Accumulated Depreciation
For the Year Ended December 31, 2018**

	Cost			
	12/31/2017	Additions	Retirements	12/31/2018
Electric Department				
<u>Generation</u>				
Land and Land Improvements	\$ 314,739	\$ 15,297	\$ -	\$ 330,036
Generation Facilities	6,762,033	-	-	6,762,033
Machinery and Equipment	-	34,669	-	34,669
Transportation Equipment	16,666	-	-	16,666
Total Generation	7,093,438	49,966	-	7,143,404
<u>Distribution</u>				
Land and Land Improvements	247,935	-	-	247,935
Distribution System	29,946,673	1,115,407	-	31,062,080
Street and Security Lighting System	586,983	72,054	-	659,037
Machinery and Equipment	870,983	70,310	4,450	936,843
Transportation Equipment	1,361,451	45,473	28,569	1,378,355
Total Distribution	33,014,025	1,303,244	33,019	34,284,250
Total Electric Department	40,107,463	1,353,210	33,019	41,427,654
Water Department				
<u>Production</u>				
Structures and Improvements	1,646,237	-	-	1,646,237
Wells, Pumps and Accessories	711,168	38,501	-	749,669
Water Treatment Plant Equipment	1,816,850	27,470	-	1,844,320
Total Production	4,174,255	65,971	-	4,240,226
<u>Distribution</u>				
Distribution System	18,346,573	1,032,060	-	19,378,633
Machinery and Equipment	300,602	46,338	10,024	336,916
Transportation Equipment	340,762	78,132	15,422	403,472
Total Water Distribution	18,987,937	1,156,530	25,446	20,119,021
Total Water Department	23,162,192	1,222,501	25,446	24,359,247
Wastewater Treatment Department				
Land and Land Improvements	35,485	-	-	35,485
Collection System	5,085,403	30,637	62,110	5,053,930
Treatment Facility	30,538,463	73,496	19,640	30,592,319
Machinery and Equipment	368,454	23,236	1,780	389,910
Transportation Equipment	95,778	197,357	45,623	247,512
Total Wastewater Treatment Department	36,123,583	324,726	129,153	36,319,156
General Plant				
Land and Land Improvements	1,500,441	-	172,057	1,328,384
Service Center	3,639,470	325,900	58,834	3,906,536
Furniture and Fixtures	419,708	105,951	43,071	482,588
Transportation Equipment	174,477	-	-	174,477
Storage Building	65,800	-	-	65,800
Total General Plant	5,799,896	431,851	273,962	5,957,785
Total Capital Assets in Service	105,193,134	3,332,288	461,580	108,063,842
Construction Work in Progress	93,886	2,503,898	1,931,193	666,591
Total Investment in Capital Assets	\$ 105,287,020	\$ 5,836,186	\$ 2,392,773	\$ 108,730,433

Composite Depreciation Rates	Accumulated Depreciation				Percent of Asset Balance
	12/31/2017	Additions	Retirements	12/31/2018	
1.6%	\$ 5,811	\$ 5,189	\$ -	\$ 11,000	3.3%
3.9%	625,396	262,326	-	887,722	13.1%
12.1%	-	4,190	-	4,190	12.1%
28.2%	5,555	4,697	-	10,252	61.5%
3.9%	636,762	276,402	-	913,164	12.8%
2.2%	10,763	5,381	-	16,144	6.5%
4.2%	14,372,926	1,306,162	-	15,679,088	50.5%
4.6%	346,038	30,170	-	376,208	57.1%
6.2%	600,212	57,720	4,450	653,482	69.8%
6.3%	803,951	87,324	28,569	862,706	62.6%
4.3%	16,133,890	1,486,757	33,019	17,587,628	51.3%
	16,770,652	1,763,159	33,019	18,500,792	
0.8%	1,593,542	13,775	-	1,607,317	97.6%
8.7%	164,845	65,403	-	230,248	30.7%
9.0%	891,225	166,900	-	1,058,125	57.4%
5.8%	2,649,612	246,078	-	2,895,690	68.3%
3.3%	5,492,349	643,481	-	6,135,830	31.7%
7.2%	190,417	24,204	10,024	204,597	60.7%
8.8%	177,854	35,431	15,422	197,863	49.0%
3.5%	5,860,620	703,116	25,446	6,538,290	32.5%
3.9%	8,510,232	949,194	25,446	9,433,980	38.7%
0.0%	-	-	-	-	0.0%
3.1%	2,950,908	156,089	62,110	3,044,887	60.2%
4.2%	8,759,575	1,277,025	19,640	10,016,960	32.7%
3.4%	308,486	13,261	1,780	319,967	82.1%
7.0%	95,778	17,382	45,623	67,537	27.3%
4.0%	12,114,747	1,463,757	129,153	13,449,351	37.0%
0.5%	366,901	6,521	172,057	201,365	15.2%
4.2%	2,571,937	163,521	58,834	2,676,624	68.5%
11.0%	329,304	52,847	43,071	339,080	70.3%
9.9%	103,023	17,341	-	120,364	69.0%
0.0%	65,800	-	-	65,800	100.0%
4.0%	3,436,965	240,230	273,962	3,403,233	57.1%
4.1%	40,832,596	4,416,340	461,580	44,787,356	41.4%
	-	-	-	-	
4.1%	\$ 40,832,596	\$ 4,416,340	\$ 461,580	\$ 44,787,356	41.2%

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OTHER INFORMATION

BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ELECTRIC DISTRIBUTION DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2009 THROUGH 2018
(UNAUDITED)

	2009	2010	2011	2012	2013	2014
Electric Capital Assets						
In Service (Thousands)	\$ 28,142	\$ 29,559	\$ 29,876	\$ 30,874	\$ 32,385	\$ 36,146
Investment Per Meter	\$ 3,607	\$ 3,778	\$ 3,825	\$ 3,948	\$ 4,120	\$ 4,558
Investment Per Dollar of Electric Revenue	\$ 1.75	\$ 1.79	\$ 1.70	\$ 1.71	\$ 1.91	\$ 2.01
Accumulated Depreciation (Thousands)	\$ 10,409	\$ 11,380	\$ 11,743	\$ 12,556	\$ 13,651	\$ 14,892
Percent of Capital Assets	37.0%	38.5%	39.3%	40.7%	42.2%	41.2%
Annual Depreciation (Thousands)	\$ 1,086	\$ 1,137	\$ 1,191	\$ 1,199	\$ 1,238	\$ 1,344
Percent of Annual Depreciation to Average Capital Assets in Service	4.1%	3.9%	4.0%	4.0%	3.9%	3.9%
Number of Meters (Year-End)	7,801	7,824	7,810	7,820	7,861	7,931
Cost of Power						
KWH Purchased (Thousands)	230,564	239,580	242,241	247,092	202,882	186,738
KWH Generated	-	-	-	-	-	5,601
Total Cost (Thousands)	\$ 11,753	\$ 12,873	\$ 14,488	\$ 14,498	\$ 12,881	\$ 12,270
Cost Per KWH Purchased (Cents)	5.10	5.37	5.98	5.87	6.35	6.60
Percent of System Loss	4.2%	3.7%	3.3%	2.7%	2.1%	3.6%
Average Load Factor for Year	70.2%	70.3%	71.0%	72.4%	67.6%	69.9%
Electric Revenue						
KWH Sold (Thousands)	221,000	230,756	234,226	240,530	198,534	185,427
Electric Utility Revenue (Thousands)	\$ 16,079	\$ 16,485	\$ 17,559	\$ 18,054	\$ 16,973	\$ 18,009
Per KWH Sold (Cents)	7.28	7.14	7.50	7.51	8.56	9.71
Gross Margin Per KWH (Cents)	2.18	1.77	1.52	1.64	2.21	3.11
Operating Income (Loss) (Thousands)	\$ 874	\$ 180	\$ (459)	\$ 223	\$ 556	\$ 1,653
Change in Net Position (Thousands)	\$ 45	\$ (882)	\$ (1,217)	\$ (772)	\$ (400)	\$ 621

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

2015	2016	2017	2018
\$ 39,034	\$ 40,295	\$ 43,225	\$ 44,612
\$ 4,912	\$ 5,046	\$ 5,377	\$ 5,510
\$ 2.15	\$ 2.22	\$ 2.23	\$ 2.11
\$ 15,838	\$ 17,441	\$ 19,024	\$ 20,711
40.6%	43.3%	44.0%	46.4%
\$ 1,520	\$ 1,636	\$ 1,763	\$ 1,914
4.0%	4.1%	4.2%	4.4%
7,946	7,986	8,039	8,096
167,978	166,984	165,645	170,684
18,554	20,116	19,401	19,081
\$ 11,287	\$ 12,475	\$ 12,754	\$ 11,854
6.72	7.47	7.70	6.94
3.4%	3.6%	3.5%	3.6%
66.8%	66.5%	66.9%	66.3%
180,256	180,334	178,511	183,244
\$ 18,119	\$ 18,159	\$ 19,412	\$ 21,183
10.05	10.07	10.87	11.56
3.33	2.60	3.17	4.62
\$ 1,666	\$ 556	\$ 1,504	\$ 3,594
\$ 707	\$ (457)	\$ 473	\$ 2,690

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WATER DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2009 THROUGH 2018
(UNAUDITED)**

	2009	2010	2011	2012	2013	2014
Water Capital Assets						
In Service (Thousands)	\$ 15,464	\$ 15,384	\$ 15,524	\$ 15,814	\$ 16,153	\$ 17,653
Investment Per Meter	\$ 3,355	\$ 3,326	\$ 3,359	\$ 3,407	\$ 3,473	\$ 3,814
Investment Per Dollar of Water Revenue	\$ 9.88	\$ 8.92	\$ 8.86	\$ 8.03	\$ 7.62	\$ 8.60
Accumulated Depreciation (Thousands)	\$ 6,623	\$ 6,476	\$ 6,866	\$ 7,349	\$ 7,815	\$ 7,949
Percent of Capital Assets	42.8%	42.1%	44.2%	46.5%	48.4%	45.0%
Annual Depreciation (Thousands)	\$ 470	\$ 489	\$ 493	\$ 483	\$ 493	\$ 553
Percent of Annual Depreciation to Average Capital Assets in Service	3.1%	3.2%	3.2%	3.1%	3.1%	3.3%
Number of Meters (Year-End)	4,609	4,626	4,621	4,642	4,651	4,629
Cost of Water Production						
Gallons Pumped into Distribution System (Thousands)	568,687	514,258	500,195	497,183	507,118	500,441
Total Cost (Thousands)	\$ 435	\$ 410	\$ 466	\$ 477	\$ 478	\$ 481
Cost Per Thousand Gallons Pumped	\$ 0.76	\$ 0.80	\$ 0.93	\$ 0.96	\$ 0.94	\$ 0.96
Percent of System Loss	20.9%	12.2%	12.9%	11.8%	14.7%	16.3%
Water Revenue						
Gallons Sold (Thousands)	449,823	451,584	435,473	438,609	432,521	418,668
Water Utility Revenue (Thousands)	\$ 1,565	\$ 1,725	\$ 1,752	\$ 1,969	\$ 2,119	\$ 2,053
Per Thousand Gallons Sold	\$ 3.48	\$ 3.82	\$ 4.02	\$ 4.49	\$ 4.90	\$ 4.90
Gross Margin Per Thousand Gallons Sold	\$ 2.72	\$ 3.02	\$ 3.09	\$ 3.53	\$ 3.96	\$ 3.94
Operating Income (Loss) (Thousands)	\$ (172)	\$ (34)	\$ (66)	\$ 183	\$ 304	\$ 171
Change in Net Position (Thousands) Before Capital Contributions from City	\$ (112)	\$ (171)	\$ (34)	\$ 184	\$ 299	\$ 143

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

2015	2016	2017	2018
\$ 17,655	\$ 17,930	\$ 24,356	\$ 25,582
\$ 3,797	\$ 3,835	\$ 5,160	\$ 5,368
\$ 8.11	\$ 7.95	\$ 10.43	\$ 10.24
\$ 7,974	\$ 8,608	\$ 9,387	\$ 10,310
45.2%	48.0%	38.5%	40.3%
\$ 656	\$ 702	\$ 821	\$ 1,005
3.7%	4.0%	3.9%	4.1%
4,650	4,675	4,720	4,766
506,271	492,846	482,159	465,743
\$ 442	\$ 459	\$ 472	\$ 493
\$ 0.87	\$ 0.93	\$ 0.98	\$ 1.06
18.7%	18.8%	19.5%	15.6%
411,825	400,226	388,296	393,241
\$ 2,177	\$ 2,254	\$ 2,335	\$ 2,499
\$ 5.29	\$ 5.63	\$ 6.01	\$ 6.35
\$ 4.42	\$ 4.70	\$ 5.03	\$ 5.29
\$ 184	\$ 72	\$ (87)	\$ (178)
\$ 153	\$ 12	\$ 133	\$ (122)

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WASTEWATER TREATMENT DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2009 THROUGH 2018
(UNAUDITED)**

	2009	2010	2011	2012	2013	2014
Wastewater Treatment Capital Assets						
In Service (Thousands)	\$ 14,299	\$ 26,975	\$ 35,931	\$ 36,329	\$ 36,325	\$ 36,368
Investment Per Account	\$ 3,134	\$ 5,901	\$ 7,862	\$ 7,908	\$ 7,892	\$ 7,937
Investment Per Dollar of Wastewater Treatment Revenue	\$ 6.76	\$ 12.34	\$ 15.91	\$ 15.77	\$ 15.93	\$ 15.78
Accumulated Depreciation (Thousands)	\$ 10,023	\$ 5,402	\$ 4,401	\$ 5,708	\$ 7,046	\$ 8,424
Percent of Capital Assets	70.1%	20.0%	12.2%	15.7%	19.4%	23.2%
Annual Depreciation (Thousands)	\$ 1,056	\$ 986	\$ 1,644	\$ 1,374	\$ 1,384	\$ 1,382
Percent of Annual Depreciation to Average Capital Assets in Service	7.6%	4.8%	5.2%	3.8%	3.8%	3.8%
Number of Accounts (Year-End)	4,562	4,571	4,570	4,594	4,603	4,582
Cost of Wastewater Treatment						
Flow in Gallons Processed (Thousands)	765,652	675,928	723,764	725,787	677,322	799,681
Total Treatment Cost (Thousands)	\$ 567	\$ 638	\$ 1,016	\$ 975	\$ 1,082	\$ 1,106
Cost Per Thousand Gallons Processed	\$ 0.74	\$ 0.94	\$ 1.40	\$ 1.34	\$ 1.60	\$ 1.38
Percent of System Loss	16.1%	16.1%	24.7%	24.6%	19.7%	30.7%
Wastewater Treatment Revenue						
Flow in Gallons Sold (Thousands)	642,413	567,138	545,138	547,053	544,183	554,578
Wastewater Treatment Utility Revenue (Thousands)	\$ 2,115	\$ 2,186	\$ 2,258	\$ 2,304	\$ 2,281	\$ 2,304
Per Thousand Gallons Sold	\$ 3.29	\$ 3.85	\$ 4.14	\$ 4.21	\$ 4.19	\$ 4.15
Gross Margin Per Thousand Gallons Sold	\$ 2.55	\$ 2.91	\$ 2.74	\$ 2.87	\$ 2.59	\$ 2.77
Operating Income (Loss) (Thousands)	\$ (142)	\$ (101)	\$ (1,079)	\$ (706)	\$ (843)	\$ (831)
Change in Net Position (Thousands)	\$ 657	\$ 840	\$ (402)	\$ (2)	\$ (482)	\$ 2

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

2015	2016	2017	2018
\$ 36,403	\$ 36,453	\$ 37,612	\$ 37,870
\$ 7,914	\$ 7,882	\$ 8,045	\$ 8,040
\$ 15.44	\$ 14.75	\$ 14.38	\$ 13.81
\$ 9,746	\$ 11,113	\$ 12,421	\$ 13,767
26.8%	30.5%	33.0%	36.4%
\$ 1,392	\$ 1,402	\$ 1,429	\$ 1,497
3.8%	3.9%	3.9%	4.0%
4,600	4,625	4,675	4,710
700,235	764,803	844,303	751,581
\$ 1,001	\$ 1,084	\$ 1,189	\$ 1,372
\$ 1.43	\$ 1.42	\$ 1.41	\$ 1.83
22.7%	28.7%	31.8%	23.3%
541,213	545,513	575,734	567,477
\$ 2,357	\$ 2,471	\$ 2,616	\$ 2,742
\$ 4.36	\$ 4.53	\$ 4.54	\$ 4.76
\$ 2.93	\$ 3.11	\$ 3.13	\$ 2.93
\$ (642)	\$ (719)	\$ (797)	\$ (887)
\$ 61	\$ 15	\$ 135	\$ (27)

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OTHER REPORTS SECTION



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

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2018, 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 22, 2019.

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 from 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.

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

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 22, 2019



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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, 2018, and the related notes to the financial statements, which collectively comprise BPU's basic financial statements and have issued our report thereon dated April 22, 2019.

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, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 22, 2019