

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
FINANCIAL REPORT
DECEMBER 31, 2019 AND 2018**

**BRAINERD PUBLIC UTILITIES
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INTRODUCTORY SECTION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ORGANIZATIONAL DATA
DECEMBER 31, 2019**

COMMISSION

		<u>Term Expires December 31,</u>
President	Mark O'Day	2020
Vice President	Mike Angland	2022
Commission Member	Dolly Matten	2019
Commission Member	William Wroolie	2021
Commission Member	Tad Johnson	2023

ADMINISTRATION

Superintendent of Utilities	Scott Magnuson
Commission Secretary	Todd Wicklund
Operations Manager	Trent Hawkinson
Wastewater Treatment Plant Supervisor	Charlie Gammon
Technology Supervisor	Aaron Andersen
Accounting Supervisor	Julie Batters

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Brainerd Public Utilities (BPU), a component unit of the City of Brainerd, Minnesota, as of and for the years ended December 31, 2019 and 2018, 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 audits 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, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States 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.

Other Information

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

Brainerd Public Utilities Commission
Brainerd Public Utilities

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2020, 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.



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 8, 2020

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**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2019 AND 2018
(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, 2019 and 2018. This discussion and analysis should be read in conjunction with BPU's financial statements and accompanying notes, which follow this section.

Financial Highlights from 2018 to 2019

- BPU's combined net position increased \$2.6 million, or 5.4%, from \$47.4 million to \$50.0 million.
- Combined total assets and deferred outflow of resources decreased \$.4 million, or 0.4%, from \$92.1 to \$91.7 million.
- Combined total liabilities decreased \$2.7 million, or 6.1%, from \$43.9 to \$41.2 million.
- Combined total operating revenue decreased \$.2 million, or 0.4%, from \$27.0 million to \$26.8 million.
- Combined total operating expenses increased \$0.3 million, or 1.4%, from \$24.4 million to \$24.7 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, 2019 AND 2018
(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 70.1% and 69.4% of total assets and deferred outflows of resources as of December 31, 2019 and 2018, respectively. Long-term liabilities represent 37.8% and 41.1% of total liabilities, net position, and deferred inflows of resources as of December 31, 2019 and 2018, respectively. Total net position increased 5.4% and 4.9% as of December 31, 2019 and 2018, respectively.

The largest portion of BPU's net position (63.0%), at December 31, 2019, 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 2019, \$7.6 million or 15.2% of BPU's net position represents resources that are restricted. The remaining balance of unrestricted net position of \$10.9 million or 21.8% 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 2018 to 2019 decreased \$.2 million, or -0.4%, from \$27.0 million to \$26.8 million.

Combined total operating expenses from 2018 to 2019 increased \$0.4 million, or 1.4%, from \$24.4 million to \$24.8 million. For 2019 significant changes were an increase of \$0.1 million in purchased power and increase of \$0.3 million in both distribution and collection and depreciation.

Net nonoperating revenue (expense) from 2018 to 2019 increased \$0.5 million, or 75.8%, from \$0.703 million to \$1.236 million. The significant change for 2019 was increase in interest income of \$0.333 million.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2019 AND 2018
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Net Position

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

	December 31,			Change	
	2019	2018	2017	2019 to 2018	2018 to 2017
Net Capital Assets	\$ 64,289	\$ 63,943	\$ 64,454	\$ 346	\$ (511)
Restricted Assets	10,235	10,628	10,341	(393)	287
Current Assets	16,617	16,704	13,390	(87)	3,314
Other Assets	293	230	242	63	(12)
Total Assets	91,434	91,505	88,427	(71)	3,078
Deferred Outflows of Resources	299	592	968	(293)	(376)
Total Assets and Deferred Outflows	\$ 91,733	\$ 92,097	\$ 89,395	\$ (364)	\$ 2,702
Current Liabilities	\$ 6,512	\$ 6,018	\$ 5,689	\$ 494	\$ 329
Long-Term Liabilities	34,671	37,857	37,880	(3,186)	(23)
Total Liabilities	41,183	43,875	43,569	(2,692)	306
Net Investment in Capital Assets	31,477	28,105	29,174	3,372	(1,069)
Restricted Net Position	7,599	8,033	8,112	(434)	(79)
Unrestricted Net Position	10,901	11,293	7,914	(392)	3,379
Total Net Position	49,977	47,431	45,200	2,546	2,231
Deferred Inflows of Resources	573	791	626	(218)	165
Total Liabilities, Net Position and Deferred Inflows	\$ 91,733	\$ 92,097	\$ 89,395	\$ (364)	\$ 2,702

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2019 AND 2018
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position

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

	2019	2018	Dollar Change	Percentage Change
OPERATING REVENUES				
Electric	\$ 21,283	\$ 21,549	\$ (266)	-1.2%
Water	2,618	2,598	20	0.8%
Wastewater Treatment	2,932	2,805	127	4.5%
Total Operating Revenue	26,833	26,952	(119)	-0.4%
OPERATING EXPENSES				
Production and Treatment	2,451	2,410	41	1.7%
Purchased Power	11,928	11,854	74	0.6%
Distribution and Collection	2,962	2,879	83	2.9%
Administration	2,760	2,849	(89)	-3.1%
Depreciation and Amortization	4,665	4,431	234	5.3%
Total Operating Expenses	24,766	24,423	343	1.4%
OPERATING INCOME (LOSS)	2,067	2,529	(462)	-18.3%
NONOPERATING REVENUE (EXPENSE)				
Interest Income - Investments	491	158	333	210.8%
Interest Income - Notes Receivable	158	184	(26)	-14.1%
Bond Premium	93	87	6	6.9%
Interest Expense	(1,074)	(1,187)	113	-9.5%
Local Option Sales Tax	1,413	1,334	79	5.9%
Federal Grant Revenue - Build America Bond	105	119	(14)	-11.8%
Bond Issuance Costs	-	(45)	45	0.0%
Gain (Loss) on Disposal of Capital Assets	49	53	(4)	0.0%
Net Nonoperating Revenue	1,235	703	532	75.7%
INCOME BEFORE OPERATING TRANSFERS	3,302	3,232	70	2.2%
TRANSFERS TO THE CITY	(757)	(691)	(66)	0.0%
CHANGE IN NET POSITION	2,545	2,541	4	9.6%
Net Position - Beginning	47,431	44,890	2,541	0.2%
NET POSITION - ENDING	<u>\$ 49,976</u>	<u>\$ 47,431</u>	<u>\$ 2,545</u>	5.7%
				5.4%

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2019 AND 2018
(UNAUDITED)**

Financial Analysis (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position
Table 2 (Continued)
(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 Receivable	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	44,890	43,470	1,420	3.3%
NET POSITION - ENDING	\$ 47,431	\$ 45,200	\$ 1,817	4.9%

Capital Assets

Net Capital Assets – Table 3, shows changes in net capital assets from 2017 to 2019. Total net capital assets as of December 31, 2019 and 2018 were \$64.3 million and \$64.0 million, respectively.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2019 AND 2018
(UNAUDITED)**

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

	December 31,			Change	
	2019	2018	2017	2019 to 2018	2018 to 2017
Electric Department					
Generation System	\$ 5,798	\$ 5,911	\$ 6,137	\$ (113)	\$ (226)
Distribution System	15,795	15,383	15,574	412	(191)
Street and Security Lighting System	249	283	241	(34)	42
Water Department					
Production Facilities	1,387	1,345	1,525	42	(180)
Distribution System	14,395	13,243	12,854	1,152	389
Wastewater Treatment Department					
Lift Station Facilities	1,885	2,009	2,134	(124)	(125)
Treatment Facilities	19,417	20,575	21,779	(1,158)	(1,204)
Land and Land Improvements	1,760	1,713	1,715	47	(2)
Machinery and Equipment	667	485	441	182	44
Furniture and Fixtures	178	144	90	34	54
Transportation Equipment	1,004	955	803	49	152
Service Center	1,127	1,230	1,067	(103)	163
Construction in Progress	627	667	94	(40)	573
Total	\$ 64,289	\$ 63,943	\$ 64,454	\$ 346	\$ (511)

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

	2019	2018	2017
Additions and Transfers to Capital Assets Being Depreciated (By Department)			
Electric	\$ 2,314	\$ 1,353	\$ 3,037
Water	2,152	1,222	6,440
Wastewater Treatment	356	325	1,294
General Plant	214	432	121
	5,036	3,332	10,892
Additions to Construction in Progress	2,682	2,504	2,230
Transfers from Construction in Progress to Capital Assets Being Depreciated	(2,722)	(1,931)	(9,023)
Deletions and Transfers	-	-	(35)
Normal Annual Depreciation	(4,650)	(4,416)	(4,013)
Total	\$ 346	\$ (511)	\$ 51

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2019 AND 2018
(UNAUDITED)**

Capital Assets (Continued)

Major capital asset transactions for 2019 and 2018 include the following:

	2019	2018
<u>Electric</u>		
Distribution Transformers and Metering Purchased	\$ 846,358	\$ 364,396
Expansion of Distribution Feeder System	533,186	490,587
Distribution System Improvements	497,144	260,425
Bucket Truck	233,547	-
LED Lighting	-	72,054
Service Truck	-	45,473
Hydroelectric Dam FERC 12D Inspection	131,061	-
Hydroelectric Dam Improvements	33,535	47,171
<u>Water</u>		
Purchase of Meters and Valves	259,354	27,470
Distribution System Improvements	1,896,509	1,009,875
Well Improvements	39,058	38,501
Machinery and Equipment	-	23,102
Service Truck	-	78,132
<u>Wastewater</u>		
Lift Station Improvements	11,410	30,637
Treatment Facility Improvements	118,036	73,496
Purchase of Meters	221,840	-
Tanker Trucks	-	146,087
Service Trucks	-	74,089
<u>General Plant</u>		
Parking Lot Improvements	65,186	58,997
Service Center Improvements	84,051	266,903
Computer Security System	-	105,951
Forklift	-	85,759
Portable Radios	21,542	5,871
Work Order Software	43,425	-
SCADA System Upgrade	-	27,947
<u>Construction in Progress</u>		
Bolt Truck Chassis	45,152	-
Hydroelectric FERC Relicensing	204,456	110,663
Water Tower Design and Construction	-	426,107
Treatment Facility Improvements	92,642	-
Water Distribution System Improvements	261,616	-
Work Order Software	-	35,300
Water Plant Garage	23,200	-
Total	<u>\$ 5,662,308</u>	<u>\$ 3,904,993</u>

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2019 AND 2018
(UNAUDITED)**

Long-Term Obligations

The following table presents the change in the outstanding debt of BPU from 2017 to 2019.

	(In Thousands of Dollars)				
	Balance as of December 31,			Increase (Decrease)	
	2019	2018	2017	2019 to 2018	2018 to 2017
Utility Revenue Bonds					
Series 2014A	\$ 4,285	\$ 4,660	\$ 5,025	\$ (375)	\$ (365)
Series 2015A	1,050	1,215	1,380	(165)	(165)
Series 2016A	5,127	5,450	5,754	(323)	(304)
Series 2016B (Equip. Certs.)	163	243	321	(80)	(78)
Series 2017A	5,130	5,605	6,035	(475)	(430)
Series 2018A	2,480	2,720	-	(240)	2,720
Series 2018A (Equip. Certs.)	250	305	-	(55)	305
G.O. Revenue Notes/Bonds					
Series 2009 - Build America	14,316	15,668	16,978	(1,352)	(1,310)
Capital Lease Payable	98	52	80	46	(28)
Compensated Absences	829	777	714	52	63
Net Pension Liability	2,936	2,957	3,460	(21)	(503)
Revenue Bond Premium	854	947	813	(93)	134
OPEB Obligation	339	346	-	(7)	346
Total Long-Term Debt	37,857	40,945	40,560	(3,088)	385
Less: Current Portion					
Utility Revenue Bonds					
Series 2014A	380	375	365	5	10
Series 2015A	165	165	165	-	-
Series 2016A	335	322	304	13	18
Series 2016B (Equip. Certs.)	80	80	78	-	2
Series 2017A	510	475	430	35	45
Series 2018A	230	240	-	(10)	240
Series 2018A (Equip. Certs.)	60	55	-	5	55
G.O. Revenue Notes/Bonds					
Series 2009 - Build America	1,396	1,352	1,310	44	42
Capital Lease Payable	30	23	28	7	(5)
Total Current Portion of Long-Term Debt	3,186	3,087	2,680	99	407
Net Long-Term Debt	\$ 34,671	\$ 37,858	\$ 37,880	\$ (3,187)	\$ (22)

The total net long-term debt at December 31, 2019, 2018, and 2017 was \$34.7 million, \$37.9 million, and \$37.9 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 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 and mailroom copier in 2019 and vehicles in 2016.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2019 AND 2018
(UNAUDITED)**

Budgetary Highlights

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

A summary of the 2019 Operating Budget Analysis and the 2020 Operating Budget approved by the Commission is presented as follows:

	(In Thousands of Dollars)			
	2019 Budget	2019 Actual	Favorable (Unfavorable) Variance	2020 Budget
Utility Operating Revenue	\$ 25,868	\$ 26,450	\$ 582	\$ 25,857
Other Operating Revenue	409	383	(26)	428
Total Operating Revenue	26,277	26,833	556	26,285
Purchased Power	12,480	11,928	552	11,268
Other Operating Expense	8,141	8,173	(32)	9,481
Depreciation and Amortization Expense	4,686	4,665	21	4,686
Total Operating Expense	24,907	24,766	541	25,435
Operating Income	1,370	2,067	1,097	850
Net Nonoperating Revenue	558	1,236	678	2,340
Income Before Operating Transfers to City	1,928	3,303	1,775	3,190
Operating Transfers to the City	(744)	(757)	(13)	(762)
Change in Net Position	\$ 1,184	\$ 2,546	\$ 1,762	\$ 2,428

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, 2019 AND 2018**

	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CAPITAL ASSETS		
Construction in Progress	\$ 627,066	\$ 666,591
In Service	108,809,369	108,063,842
Total Investment in Capital Assets	109,436,435	108,730,433
Less: Accumulated Depreciation	(45,147,688)	(44,787,356)
Net Capital Assets	64,288,747	63,943,077
RESTRICTED ASSETS		
Cash and Investments	5,406,465	5,338,512
Bonds and Notes Receivable	4,772,000	5,222,667
Notes Receivable - Interest	56,200	66,600
Total Restricted Assets	10,234,665	10,627,779
CURRENT ASSETS		
Cash and Investments	10,908,413	11,206,415
Accounts Receivable	3,405,626	3,383,214
Interest Receivable	37,033	48,089
Due from the City of Brainerd	975,282	995,640
Inventory	1,122,541	937,711
Prepaid Expenses	168,379	133,559
Total Current Assets	16,617,274	16,704,628
OTHER ASSETS		
Service Territory Acquisitions, Net of Accumulated Depreciation	292,883	229,638
Total Assets	91,433,569	91,505,122
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	265,120	560,117
OPEB Related	34,174	31,901
Total Deferred Outflows of Resources	299,294	592,018
Total Assets and Deferred Outflows of Resources	\$ 91,732,863	\$ 92,097,140

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2019 AND 2018**

	2019	2018
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
NET POSITION		
Net Investment in Capital Assets	\$ 31,477,317	\$ 29,174,203
Restricted for Debt Service	7,598,735	8,112,081
Unrestricted	10,901,077	10,145,014
Total Net Position	49,977,129	47,431,298
LONG-TERM LIABILITIES		
Revenue Bonds Payable	16,452,600	18,072,400
G.O. Equipment Certificates of Indebtedness	272,237	412,603
G.O. Build America Bonds Payable	12,920,000	14,316,000
Capital Lease Payable	67,729	28,983
Compensated Absences	829,076	777,125
Net Pension Liability	2,935,780	2,956,866
Revenue Bond Premium	853,949	947,229
Other Postemployment Benefit Obligation	339,439	346,040
Total Long-Term Liabilities	34,670,810	37,857,246
CURRENT LIABILITIES		
Accounts and Contracts Payable	1,592,717	1,417,329
Electric Utility Revenue Bonds Payable	1,619,800	1,577,400
G.O. Equipment Certificates of Indebtedness	140,367	135,367
G.O. Build America Bonds Payable	1,396,000	1,352,000
Capital Lease Payable	30,248	23,020
Accrued Expenses		
Salaries and Withholding Taxes	184,881	152,873
Sales Taxes	82,863	87,685
Current Liabilities from Restricted Assets:		
Bond Interest	291,015	348,900
Payable to City of Brainerd	653,511	376,077
Conservation Incentive Program Payable	187,391	221,484
Customer Deposits	333,281	326,030
Total Current Liabilities	6,512,074	6,018,165
Total Liabilities	41,182,884	43,875,411
DEFERRED INFLOWS OF RESOURCES		
Pension Related	565,218	790,431
OPEB Related	7,632	-
Total Deferred Inflows of Resources	572,850	790,431
Total Net Position, Liabilities and Deferred Inflows of Resources	\$ 91,732,863	\$ 92,097,140

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Utility Revenues		
Residential	\$ 8,854,987	\$ 8,890,866
Commercial	10,208,836	10,323,258
Large Commercial	5,997,428	5,784,824
City of Brainerd	495,162	521,493
Internal Use	893,556	903,408
Total Utility Revenues	<u>26,449,969</u>	<u>26,423,849</u>
Other Operating Revenues		
Penalties	182,646	165,738
Other	200,267	362,639
Total Other Operating Revenues	<u>382,913</u>	<u>528,377</u>
Total Operating Revenues	<u>26,832,882</u>	<u>26,952,226</u>
OPERATING EXPENSES		
Generation, Production, and Treatment		
Salaries and Wages	1,066,554	1,035,370
Purchased Services	815,008	806,833
Supplies and Maintenance	152,748	145,031
Employee Benefits	358,412	358,682
Other Charges	58,388	64,331
Total Generation, Production, and Treatment Expenses	<u>2,451,110</u>	<u>2,410,247</u>
Purchased Power	11,928,124	11,854,449
Distribution and Collection		
Salaries and Wages	1,555,396	1,487,365
Purchased Services	541,610	608,199
Supplies and Maintenance	265,162	233,265
Employee Benefits	522,292	486,059
Other Charges	77,062	63,871
Total Distribution and Collection Expenses	<u>2,961,522</u>	<u>2,878,759</u>
Administration		
Salaries and Wages	1,150,230	1,091,057
Purchased Services	373,357	500,462
Supplies and Maintenance	119,594	101,753
Insurance and Bonds	269,426	265,461
Employee Benefits	486,256	570,789
Other Charges	361,420	319,248
Total Administration Expenses	<u>2,760,283</u>	<u>2,848,770</u>
Depreciation and Amortization	<u>4,664,587</u>	<u>4,430,554</u>
Total Operating Expenses	<u>\$ 24,765,626</u>	<u>\$ 24,422,779</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
OPERATING INCOME (LOSS)	\$ 2,067,256	\$ 2,529,447
NONOPERATING REVENUE (EXPENSE)		
Interest Income - Investments	491,353	158,285
Interest Income - Notes Receivable	158,204	183,686
Bond Premium	93,197	87,115
Interest Expense	(1,074,127)	(1,187,070)
Local Option Sales Tax	1,412,991	1,333,922
Federal Grant Revenue - Build America Bond	104,911	118,803
Bond Issuance Costs	-	(44,481)
Gain (Loss) on Disposal of Capital Assets	49,440	52,945
Net Nonoperating Revenue (Expense)	<u>1,235,969</u>	<u>703,205</u>
INCOME (LOSS) BEFORE TRANSFERS	3,303,225	3,232,652
TRANSFERS TO THE CITY	<u>(757,394)</u>	<u>(691,284)</u>
CHANGE IN NET POSITION	2,545,831	2,541,368
Net Position - Beginning	<u>47,431,298</u>	<u>44,889,930</u>
NET POSITION - ENDING	<u>\$ 49,977,129</u>	<u>\$ 47,431,298</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 26,810,470	\$ 27,651,421
Cash Payments to Employees for Services	(5,007,725)	(3,532,589)
Cash Payments to Other Suppliers of Goods or Services	(15,037,825)	(16,240,504)
Net Cash Provided by Operating Activities	6,764,920	7,878,328
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Primary Government	(459,602)	(566,424)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to Utility Plant	(4,932,567)	(3,814,715)
Additions to Service Territories	(79,806)	-
Proceeds from Local Option Sales Tax	1,412,991	1,337,303
Principal Paid on Long-Term Debt	(3,064,766)	(2,652,298)
Interest Paid on Long-Term Debt	(1,132,095)	(1,280,966)
Proceeds from Revenue Bonds	-	2,873,923
Proceeds from Equipment Certificates	-	327,623
Principal Received on Notes Receivable	450,667	436,667
Federal Grant Revenue - Build America Bond	104,911	118,803
Principal Paid on Capital Lease	(15,155)	(27,915)
Proceeds from Sale of Utility Plant	49,440	52,945
Net Cash Used by Capital and Related Financing Activities	(7,206,380)	(2,628,630)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	671,013	254,806
Purchase of Investments	(2,124,148)	(11,712,327)
Redemption of Investments	1,299,457	8,934,097
Net Cash Used by Investing Activities	(153,678)	(2,523,424)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,054,740)	2,159,850
Cash and Cash Equivalents - Beginning	5,614,725	3,454,875
CASH AND CASH EQUIVALENTS - ENDING	\$ 4,559,985	\$ 5,614,725

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 2,067,256	\$ 2,529,447
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	4,664,587	4,430,554
Revenue Reduced for Uncollectible Accounts	40,130	59,227
(Increase) Decrease in Assets:		
Accounts Receivable	(62,542)	675,870
Prepaid Expenses	(34,820)	26,828
Inventories	(184,830)	211,719
Change in Deferred Outflows of Resources - OPEB	(2,273)	376,666
Change in Deferred Outflows of Resources - Pension	294,997	-
Increase (Decrease) in Liabilities		
Accounts Payable	170,566	(232,987)
Accrued Liabilities	39,259	36,825
Conservation Incentive Program Payable	(34,093)	4,316
Accrued Compensated Absences	51,951	63,386
Other Postemployment Benefit Obligation	(6,601)	35,705
Change in Pension Related Items	(21,086)	(503,226)
Change in Deferred Inflows of Resources - OPEB	7,632	31,901
Change in Deferred Inflows of Resources - Pension	(225,213)	132,097
	\$ 6,764,920	\$ 7,878,328
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and Investments - Current Assets	\$ 10,908,413	\$ 11,206,415
Cash and Investments - Restricted Assets	5,406,465	5,338,512
Cash and Investments - Balance Sheets	16,314,878	16,544,927
Less: Investments not Meeting the Definition of Cash Equivalents	11,434,555	10,930,202
Cash and Cash Equivalents - Ending	\$ 4,880,323	\$ 5,614,725
NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Utility Plant on Account	\$ (283,937)	\$ (167,172)
Net Decrease in Fair Value of Investments	198,353	(62,780)
Acquisition of Plant Finance by Capital Lease	(61,129)	-

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**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 2019 AND 2018**

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.

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, nonnegotiable 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, 2019 and 2018 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, 2019 AND 2018**

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 postemployment 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, 2019 AND 2018**

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, 2019 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Electric	\$ 41,427,654	\$ 2,313,811	\$ 3,864,213	\$ 39,877,252
Water	24,359,247	2,151,792	345,569	26,165,470
Wastewater Treatment	36,319,156	355,594	-	36,674,750
General Plant	5,957,785	214,045	79,933	6,091,897
Construction in Progress	666,591	2,682,194	2,721,719	627,066
	<u>108,730,433</u>	<u>7,717,436</u>	<u>7,011,434</u>	<u>109,436,435</u>
Accumulated Depreciation	<u>(44,787,356)</u>	<u>(4,648,026)</u>	<u>(4,287,694)</u>	<u>(45,147,688)</u>
Net Capital Assets	<u>\$ 63,943,077</u>	<u>\$ 3,069,410</u>	<u>\$ 2,723,740</u>	<u>\$ 64,288,747</u>

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>

Capital assets not being depreciated totaled \$1,964,981 and \$1,669,549 at December 31, 2019 and 2018, respectively.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 RESTRICTED ASSETS

Cash and Investments

At December 31, 2019 and 2018, restricted cash and investments consisted of the following:

	2019	2018
Customer Deposits	\$ 333,281	\$ 326,030
City of Brainerd Contribution	653,511	376,077
Conservation Incentive Program	187,391	221,484
Escrow for Franchise Fees	-	149,266
Electric Utility Revenue Bonds Debt Service Reserve	1,194,807	1,134,545
General Obligation Revenue Notes and Bonds Debt Service Reserve (Water and Wastewater)	3,037,475	3,131,110
Total Restricted Cash	\$ 5,406,465	\$ 5,338,512

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 a loan from the Minnesota Public Finance Authority (PFA) to Brainerd. The details of the loan 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 a Taxable General Obligation Utility Revenue Note to Brainerd. The Baxter Note is 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, 2019, is as follows:

	Note No.2
Beginning Balance	\$ 5,222,667
Payments Received	(450,667)
Ending Balance	\$ 4,772,000

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

Notes Receivable (Continued)

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

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

Interest accrued on the notes receivable as of December 31, 2019 and 2018 of \$56,200 and \$66,600, respectively, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the years ended December 31, 2019 and 2018 was \$158,204 and \$183,686, respectively.

NOTE 4 DEPOSITS AND INVESTMENTS

Cash and investments are presented at December 31, 2019 and 2018, as follows:

	<u>2019</u>	<u>2018</u>
Restricted Cash and Investments	\$ 5,406,465	\$ 5,338,512
Current Cash and Investments	10,908,413	11,206,415
Total	<u>\$ 16,314,878</u>	<u>\$ 16,544,927</u>

Cash and investments at December 31, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Petty Cash	\$ 1,500	\$ 1,500
Deposits	4,878,823	5,613,225
Investments	11,434,555	10,930,202
Total	<u>\$ 16,314,878</u>	<u>\$ 16,544,927</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, 2019, there were no deposits subject to custodial risk.

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

BPU's deposits in financial institutions at December 31, 2019 and 2018 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, 2019 by maturity:

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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	\$ 1,360,920	\$ 7,321,158	\$ 692,517	\$ 9,374,595	N/A
FHLMC	-	-	994,960	994,960	8.7%
Commercial Paper	1,065,000	-	-	1,065,000	9.3%
	<u>\$ 2,425,920</u>	<u>\$ 7,321,158</u>	<u>\$ 1,687,477</u>	<u>\$ 11,434,555</u>	18.0%

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. BPU does not have a specific policy for credit risk, but follows Minnesota Statutes for allowable investments. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. S&P credit ratings for BPU's investments as of December 31, 2019 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, 2019, 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 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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Measurements (Continued)

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, 2019 and 2018, consisted of the following:

<u>Type</u>	<u>Level</u>	<u>2019</u>	<u>2018</u>
Negotiable CD's	2	\$ 9,374,595	\$ 6,324,834
FNMA Securities	2	-	1,779,292
FNLMC Securities	2	994,960	964,108
FFCB Securities	2	-	796,968
Commercial Paper	1	1,065,000	1,065,000
Total Investments		<u>\$ 11,434,555</u>	<u>\$ 10,930,202</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, 2019 and 2018, BPU owed the City the following:

	<u>2019</u>	<u>2018</u>
Monthly Operating Contribution	\$ 61,652	\$ 56,829
Reimbursement of Other Costs	373,387	139,877
Wastewater Collection and Storm Sewer Charges	218,472	179,371
Total	<u>\$ 653,511</u>	<u>\$ 376,077</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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 February 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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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 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, 2019 was \$1,127,345. 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, 2019 was \$1,858,194. 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, 2019 was \$204,054. 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, 2019 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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 LONG-TERM DEBT (CONTINUED)

General Obligation Equipment Certificates of Indebtedness, Series 2016B

The resolutions authorizing the issuance of equipment certificates of indebtedness contain various covenants, reserve fund requirements, and obligations which BPU must comply. The amount shown as restricted cash and investments as of December 31, 2019 was \$43,606 (Electric portion) and \$44,322 (Water portion). 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 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, 2019 was \$343,534. 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, 2019 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, 2019 AND 2018**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Long-term bonds and notes debt consists of the following as of December 31, 2019 and 2018:

Description of Issue	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding	
					2019	2018
G.O. Build America Bonds, Series 2009	3.233%	5/4/2009	8/20/2028	\$ 25,966,788	\$ 14,316,000	\$ 15,668,000
Electric Utility Revenue Bonds, Series 2014A	2.0 - 4.0%	10/9/2014	12/1/2029	6,070,000	4,285,000	4,660,000
G.O. Water Utility Revenue Bonds, Series 2015A	2.25 - 4.0%	12/15/2014	2/1/2025	1,700,000	1,050,000	1,215,000
G.O. Utility Revenue Bonds, Series 2016A						
Water	1.625 - 5.0%	7/20/2016	10/1/2031	4,845,000	4,135,000	4,395,000
Sewer	1.625 - 5.0%	7/20/2016	10/1/2031	1,162,800	992,400	1,054,800
G.O. Equipment Certificates of Indebtedness Series 2016B						
Electric	2.0%	7/20/2016	2/1/2021	200,917	81,302	121,485
Water	2.0%	7/20/2016	2/1/2021	200,918	81,302	121,485
Electric Utility Revenue and Refunding Bonds, Series 2017A	2.25%	10/18/2017	12/1/2027	6,035,000	5,130,000	5,605,000
G.O. Utility Revenue Bonds (Water), Series 2018A	3.0 - 5.0%	3/22/2018	2/1/2028	2,720,000	2,480,000	2,720,000
G.O. Equipment Certificates of Indebtedness Series 2018A						
Electric	5.0%	3/22/2018	2/1/2023	97,600	80,000	97,600
Water	5.0%	3/22/2018	2/1/2023	79,300	65,000	79,300
Sewer	5.0%	3/22/2018	2/1/2023	128,100	105,000	128,100
Total Debt				<u>\$ 49,206,423</u>	<u>32,801,004</u>	<u>35,865,770</u>
<u>Less Amount Due Within One Year</u>						
G.O. Build America Bonds					1,396,000	1,352,000
Electric Utility Revenue Bonds, Series 2014A					380,000	375,000
Water Utility Revenue Bonds, Series 2015A					165,000	165,000
G.O. Utility Revenue Bonds (Water), Series 2016A					270,000	260,000
G.O. Utility Revenue Bonds (Sewer), Series 2016A					64,800	62,400
G.O. Equipment Certificates of Indebtedness (Electric), Series 2016B					40,184	40,184
G.O. Equipment Certificates of Indebtedness (Water), Series 2016B					40,183	40,183
Electric Utility Revenue and Refunding Bonds, Series 2017A					510,000	475,000
G.O. Utility Revenue Bonds (Water), Series 2018A					230,000	240,000
G.O. Equipment Certificates of Indebtedness (Electric), Series 2018A					19,200	17,600
G.O. Equipment Certificates of Indebtedness (Water), Series 2018A					15,600	14,300
G.O. Equipment Certificates of Indebtedness (Sewer), Series 2018A					25,200	23,100
Net Long - Term Debt					<u>\$ 29,644,837</u>	<u>\$ 32,801,003</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>General Obligation Build America Bonds</u>			
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	1,585,000	273,350	1,858,350
2025-2028	<u>6,870,000</u>	<u>564,062</u>	<u>7,434,062</u>
Total	<u>\$ 14,316,000</u>	<u>\$ 2,412,077</u>	<u>\$ 16,728,077</u>
<u>Electric Utility Revenue Bonds, Series 2014A</u>			
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	415,000	92,895	507,895
2025-2029	<u>2,305,000</u>	<u>260,340</u>	<u>2,565,340</u>
Total	<u>\$ 4,285,000</u>	<u>\$ 857,490</u>	<u>\$ 5,142,490</u>
<u>G.O. Water Utility Revenue Bonds, Series 2015A</u>			
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	180,000	5,962	185,962
2025	<u>185,000</u>	<u>2,082</u>	<u>187,082</u>
Total	<u>\$ 1,050,000</u>	<u>\$ 91,221</u>	<u>\$ 1,141,221</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 LONG-TERM DEBT (CONTINUED)

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>G.O. Utility Revenue Bonds, Series 2016A (Water Portion)</u>			
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	330,000	94,444	424,444
2025-2029	1,845,000	202,725	2,047,725
2030-2031	790,000	25,886	815,886
Total	<u>\$ 4,135,000</u>	<u>\$ 787,831</u>	<u>\$ 4,922,831</u>
<u>G.O. Utility Revenue Bonds, Series 2016A (Wastewater Portion)</u>			
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	79,200	18,887	98,087
2025-2029	442,800	48,654	491,454
2030-2031	189,600	6,213	195,813
Total	<u>\$ 992,400</u>	<u>\$ 185,300</u>	<u>\$ 1,177,700</u>
<u>G.O. Equipment Certificates of Indebtedness (Electric Portion) - Series 2016B</u>			
2020	\$ 40,183	\$ 1,224	\$ 41,407
2021	41,119	411	41,530
Total	<u>\$ 81,302</u>	<u>\$ 1,635</u>	<u>\$ 82,937</u>
<u>G.O. Equipment Certificates of Indebtedness (Water Portion) - Series 2016B</u>			
2020	\$ 40,184	\$ 1,224	\$ 41,408
2021	41,118	411	41,529
Total	<u>\$ 81,302</u>	<u>\$ 1,635</u>	<u>\$ 82,937</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
<u>Electric Utility Revenue and Refunding Bonds, Series 2017A</u>			
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	695,000	63,450	758,450
2025-2027	<u>2,125,000</u>	<u>96,412</u>	<u>2,221,412</u>
Total	<u>\$ 5,130,000</u>	<u>\$ 548,213</u>	<u>\$ 5,678,213</u>
<u>G.O. Water Utility Revenue Bonds, Series 2018A</u>			
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	280,000	43,300	323,300
2025-2028	<u>1,210,000</u>	<u>73,800</u>	<u>1,283,800</u>
Total	<u>\$ 2,480,000</u>	<u>\$ 420,050</u>	<u>\$ 2,900,050</u>
<u>G.O. Equipment Certificates of Indebtedness (Electric Portion) - Series 2018A</u>			
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>\$ 80,000</u>	<u>\$ 8,160</u>	<u>\$ 88,160</u>
<u>G.O. Equipment Certificates of Indebtedness (Water Portion) - Series 2018A</u>			
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>\$ 65,000</u>	<u>\$ 6,631</u>	<u>\$ 71,631</u>
<u>G.O. Equipment Certificates of Indebtedness (Sewer Portion) - Series 2018A</u>			
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>\$ 105,000</u>	<u>\$ 10,710</u>	<u>\$ 115,710</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2019, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
G.O. Build America Bonds	\$ 15,668,000	\$ -	\$ 1,352,000	\$ 14,316,000
Electric Utility Revenue				
Bonds, Series 2014A	4,660,000	-	375,000	4,285,000
G.O. Water Utility Revenue				
Bonds, Series 2015A	1,215,000	-	165,000	1,050,000
G.O. Utility Revenue				
Bonds, Series 2016A	5,449,800	-	322,400	5,127,400
G.O. Equipment Certificates of Indebtedness, Series 2016B	242,970	-	80,366	162,604
Electric Utility Revenue and Refunding Bonds, Series 2017A	5,605,000	-	475,000	5,130,000
G.O. Utility Revenue				
Bonds, Series 2018A	2,720,000	-	240,000	2,480,000
G.O. Equipment Certificates of Indebtedness, Series 2018A	305,000	-	55,000	250,000
Revenue Bond Premium				
Series 2014A	165,089	-	15,357	149,732
Series 2015A	67,960	-	11,327	56,633
Series 2016A	506,285	-	40,235	466,050
Series 2016B	5,034	-	1,948	3,086
Series 2018A	202,861	-	24,413	178,448
Capital Lease Payable	52,003	61,129	15,155	97,977
Compensated Absences	777,125	464,189	412,238	829,076
	<u>\$ 37,642,127</u>	<u>\$ 525,318</u>	<u>\$ 3,585,439</u>	<u>\$ 34,582,006</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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
Water Utility Revenue Bonds, Series 2015A	1,380,000	-	165,000	1,215,000
Utility Revenue Bonds, Series 2016A	5,753,600	-	303,800	5,449,800
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>

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, 2019 and 2018, with related accumulated depreciation of \$192,546 and \$179,267, respectively. Depreciation expense related to this asset for the years ended December 31, 2019 and 2018 was \$13,279 and \$13,279, respectively.

In 2019, BPU entered into a capital lease agreement for financing a billing inserter and a mailroom copier. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The asset cost was \$73,520 with related accumulated depreciation of \$0 at December 31, 2019. Depreciation expense related to this asset for the years ended December 31, 2019 and 2018 was \$0.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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 future minimum lease payments as of the inception date. The asset cost for these four vehicles was \$84,812 with related accumulated depreciation of \$57,991 and \$41,029 at December 31, 2019 and 2018, respectively. Depreciation expense related to these assets for the year ended December 31, 2019 and 2018 was \$16,962 and \$16,962, respectively.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2019, were as follows:

<u>Year Ended December 31,</u>		
2020	\$	36,347
2021		22,946
2022		17,755
2023		17,755
2024		17,755
2025		3,687
Total Minimum Lease Payments	\$	116,245
Less: Amount Representing Interest		18,268
Present Value of Minimum Lease Payments	\$	97,977

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, 2019 AND 2018**

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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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 fiscal year 2019 while BPU was required to contribute 7.50% for Coordinated Plan members. BPU's contributions to the General Employees Fund for the year ended December 31, 2019 and 2018, were \$297,230 and \$276,672, respectively. BPU's contributions were equal to the required contributions as set by state statute.

General Employees Fund Pension Costs

At December 31, 2019 and 2018, BPU reported a liability of \$2,935,780 and \$2,956,866, respectively, for its proportionate share of the General Employees Fund's net pension liability. BPU's 2019 and 2018 net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019 and 2018. The State of Minnesota is considered a nonemployer 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 \$91,163 at December 31, 2019 and \$97,081 at December 31, 2018. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

General Employees Fund Pension Costs (Continued)

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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019 BPU's proportion was 0.0531 percent which was a decrease of .0002 percent from its proportion measured as of June 30, 2018.

BPU's Proportionate Share of the Net Pension Liability	\$ 2,935,780
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with BPU	91,163
	<u>\$ 3,026,943</u>

There were no provision changes during the measurement period.

For the year ended December 31, 2019 and 2018, BPU recognized pension expense of \$354,163 and \$346,250 for its proportionate share of the General Employees Plan's pension expense. In addition, BPU recognized an additional \$6,827 in 2019 and \$22,639 in 2018 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, 2019, 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	\$ 81,361	\$ -
Changes in Actuarial Assumptions	-	230,754
Difference Between Projected and Actual Investment Earnings	-	297,576
Changes in Proportion	31,065	36,888
Contributions Paid to PERA Subsequent of the Measurement Date	152,694	-
Total	<u>\$ 265,120</u>	<u>\$ 565,218</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

General Employees Fund Pension Costs (Continued)

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 of the Measurement Date	137,268	-
Total	<u>\$ 560,117</u>	<u>\$ 790,431</u>

\$152,694 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, 2020. 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
2020	\$ (142,438)
2021	(253,202)
2022	(61,884)
2023	4,731

Total pension expense for all plans recognized by BPU for the year ended December 31, 2019, was \$360,990.

Actuarial Assumptions

The total pension liability in the June 30, 2019, 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% per year for the General Employees Plan.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2019, 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 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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

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

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 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Pension Liability Sensitivity

The following presents BPU's proportionate share of the net pension liability at December 31, 2019 and 2018 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, 2019		
	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	\$ 4,826,264	\$ 2,935,780	\$ 1,374,809

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

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 2019 and 2018, BPU contributed \$31,901 and \$35,705, respectively to the plan.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

BPU's OPEB liability was measured as of January 01, 2019, 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 3.80%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

Since the most recent GASB 75 valuation, the following changes have been made:

- The discount rate was changed from 3.30% to 3.80%.

Changes in Net OPEB Liability

	<u>Total OPEB Liability 2019</u>	<u>Total OPEB Liability 2018</u>
Balance at January 1,	\$ 346,040	\$ 370,966
Changes for the Year:		
Service Cost	22,563	23,674
Interest	11,642	12,031
Assumption Changes	(8,905)	-
Benefit Payments	(31,901)	(60,631)
Net Change in Total OPEB Liability	(6,601)	(24,926)
Balance at December 31,	<u>\$ 339,439</u>	<u>\$ 346,040</u>

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:

<u>2019</u>	<u>1% Decrease 2.8%</u>	<u>Discount Rate 3.8%</u>	<u>1% Increase 4.8%</u>
Description			
Net OPEB Liability	\$ 361,278	\$ 339,439	\$ 318,746
<u>2018</u>	<u>1% Decrease 2.3%</u>	<u>Discount Rate 3.3%</u>	<u>1% Increase 4.3%</u>
Description			
Net OPEB Liability	\$ 367,282	\$ 346,040	\$ 325,738

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in Net OPEB Liability (Continued)

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 health care cost trend rates that are 1% lower (5.25% decreasing to 4.00% over 6 years) or 1% higher (7.25% decreasing to 6.00% over 6 years) than the current health care cost trend rates:

<u>2019</u>	1% Decrease (5.25% Decreasing to 4.0%)	Current Trend Rates (6.25% Decreasing to 5.0%)	1% Increase (7.25% Decreasing to 6.0%)
Medical Trend Rate			
Net OPEB Liability	\$ 305,856	\$ 339,439	\$ 378,828
<u>2018</u>	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%)
Medical Trend Rate			
Net OPEB Liability	\$ 315,039	\$ 346,040	\$ 382,250

For the year ended December 31, 2019 and 2018, BPU recognized OPEB expense of \$25,300 and \$35,705, respectively. At December 31, 2019 and 2018, BPU reported deferred inflow of resources and \$34,174 in deferred outflows of resources related to OPEB from the following sources:

<u>2019</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Authority's Contributions Subsequent to the Measurement Date	\$ 34,174	\$ -
Changes in Actuarial Assmptions	-	7,632
Total	<u>\$ 34,174</u>	<u>\$ 7,632</u>
<u>2018</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Authority's Contributions Subsequent to the Measurement Date	\$ 31,901	\$ -
Changes in Actuarial Assmptions	-	-
Total	<u>\$ 31,901</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31,	Future Recognition
2020	\$ (1,272)
2021	(1,272)
2022	(1,272)
2023	(1,272)
2024	(1,272)
Thereafter	(1,272)

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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.

NOTE 13 SUBSEQUENT EVENTS

Subsequent to year end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to Brainerd Public Utilities, COVID-19 may impact various parts of its 2020 operations and financial results including, but not limited to, costs for emergency preparedness and shortages of personnel. Management believes the Commission is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year end and are still developing.

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REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF BPU'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2019**

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
2019	0.0531%	\$ 2,935,780	\$ 91,163	\$ 3,026,943	\$ 3,757,390	78.13%	80.20%
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.

The Notes to Required Supplementary Information are an integral part of this schedule.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF PERA CONTRIBUTIONS
DECEMBER 31, 2019**

Year Ended December 31,	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contributions in (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a % of Covered Payroll (b/d)
2019	\$ 297,230	\$ 297,230	\$ -	\$ 3,963,067	7.50%
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, RELATED RATIOS, AND NOTES
YEAR ENDED DECEMBER 31, 2019**

	Measurement Date December 31, 2019	Measurement Date December 31, 2018
<i>Total OPEB Liability</i>		
Service Cost	\$ 22,563	\$ 23,674
Interest	11,642	12,031
Assumption Changes	(8,905)	-
Benefit Payments	<u>(31,901)</u>	<u>(60,631)</u>
Net Change in Total OPEB Liability	(6,601)	(24,926)
Total OPEB - Beginning of the Year	346,040	370,966
Total OPEB - End of the Year	<u>\$ 339,439</u>	<u>\$ 346,040</u>
Covered-Employee Payroll	\$ 3,409,972	\$ 3,310,652
BPU's OPEB Liability as a Percentage of Covered-Employee Payroll	10%	10%

Note 1: Information is presented prospectively and an accumulation of 10 years will be provided.

Note 2: No assets are accumulated in a trust.

The Notes to Required Supplementary Information are an integral part of this schedule.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

NOTE 1 Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the measurement period ended June 30:

2019

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

**NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2017

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- The state's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2019**

NOTE 2 Other Postemployment Benefits

As disclosed on the Schedule of Changes in the Total OPEB Liability, Related Ratios, and Notes, no assets have been irrevocably deposited in a trust to advance fund the employer's obligation. Therefore, the actuarial value of assets is zero.

The following changes were reflected in the valuation performed on behalf of the BPU's Other Postemployment Benefits plan for the year ended December 31:

2019

- The discount rate was changed from 3.30% to 3.80%.

2018

- 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.
- 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%.

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SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF NET POSITION BY DEPARTMENT
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018)**

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
CAPITAL ASSETS					
Construction in Progress	\$ 249,608	\$ 284,816	\$ 92,642	\$ 627,066	\$ 666,591
In Service	43,102,933	27,466,589	38,239,847	108,809,369	108,063,842
Total Investment in Capital Assets	43,352,541	27,751,405	38,332,489	109,436,435	108,730,433
Less: Accumulated Depreciation	(18,888,481)	(11,008,973)	(15,250,234)	(45,147,688)	(44,787,356)
Net Capital Assets	24,464,060	16,742,432	23,082,255	64,288,747	63,943,077
RESTRICTED ASSETS					
Cash and Investments					
Customer Deposits	333,281	-	-	333,281	326,030
Escrow for Franchise Fees	-	-	-	-	149,266
City of Brainerd Contribution	64,791	343,055	245,665	653,511	376,077
Conservation Incentive Program	187,391	-	-	187,391	221,484
Debt Service Reserve	1,194,807	1,044,097	1,993,378	4,232,282	4,265,655
Total Restricted Cash and Investments	1,780,270	1,387,152	2,239,043	5,406,465	5,338,512
Bonds and Notes Receivable	-	-	4,772,000	4,772,000	5,222,667
Notes Receivable - Interest	-	-	56,200	56,200	66,600
Total Restricted Assets	1,780,270	1,387,152	7,067,243	10,234,665	10,627,779
CURRENT ASSETS					
Cash and Investments	4,275,123	862,142	5,771,148	10,908,413	11,206,415
Accounts Receivable	2,500,245	403,796	501,585	3,405,626	3,383,214
Interest Receivable	9,893	6,986	20,154	37,033	48,089
Due from the City of Brainerd	29,527	679,870	265,885	975,282	995,640
Inventory	1,012,687	109,854	-	1,122,541	937,711
Prepaid Expenses	165,902	-	2,477	168,379	133,559
Total Current Assets	7,993,377	2,062,648	6,561,249	16,617,274	16,704,628
OTHER ASSETS					
Service Territory Acquisitions, Net of Accumulated Depreciation	292,883	-	-	292,883	229,638
Total Assets	34,530,590	20,192,232	36,710,747	91,433,569	91,505,122
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related	159,072	53,024	53,024	265,120	560,117
OPEB Related	20,504	6,835	6,835	34,174	31,901
Total Deferred Outflows of Resources	179,576	59,859	59,859	299,294	592,018
Total Assets and Deferred Outflows of Resources	\$ 34,710,166	\$ 20,252,091	\$ 36,770,606	\$ 91,732,863	\$ 92,097,140

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF NET POSITION BY DEPARTMENT (CONTINUED)
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018)**

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2019	2018
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES					
NET POSITION					
Net Investment in Capital Assets	\$ 15,610,770	\$ 8,311,674	\$ 7,554,873	\$ 31,477,317	\$ 29,174,203
Restricted for Debt Service	-	956,097	6,642,638	7,598,735	8,112,081
Unrestricted	4,398,797	889,666	5,612,614	10,901,077	10,145,014
Total Net Position	<u>20,009,567</u>	<u>10,157,437</u>	<u>19,810,125</u>	<u>49,977,129</u>	<u>47,431,298</u>
LONG-TERM LIABILITIES					
Revenue Bonds Payable	8,525,000	7,000,000	927,600	16,452,600	\$ 18,072,400
G.O. Equipment Certificates of Indebtedness	101,918	90,519	79,800	272,237	412,603
G.O. Build America Bonds Payable	-	-	12,920,000	12,920,000	14,316,000
Capital Lease Payable	41,529	13,100	13,100	67,729	28,983
Compensated Absences	506,490	184,984	137,602	829,076	777,125
Net Pension Liability	1,761,468	587,156	587,156	2,935,780	2,956,866
Revenue Bond Premium	155,915	601,754	96,280	853,949	947,229
Other Postemployment Benefit Obligation	203,663	67,888	67,888	339,439	346,040
Total Long-Term Liabilities	<u>11,295,983</u>	<u>8,545,401</u>	<u>14,629,426</u>	<u>34,670,810</u>	<u>37,857,246</u>
CURRENT LIABILITIES					
Accounts and Contracts Payable	1,288,483	236,419	67,815	1,592,717	1,417,329
Revenue Bonds Payable	890,000	665,000	64,800	1,619,800	1,577,400
G.O. Equipment Certificates of Indebtedness	59,384	55,783	25,200	140,367	135,367
G.O. Build America Bonds Payable	-	-	1,396,000	1,396,000	1,352,000
Capital Lease Payable	21,044	4,602	4,602	30,248	23,020
Accrued Expenses					
Salaries and Withholding Taxes	111,840	39,578	33,463	184,881	152,873
Sales Taxes	80,617	2,246	-	82,863	87,685
Current Liabilities from Restricted Assets:					
Bond Interest	24,075	88,000	178,940	291,015	348,900
Payable to City of Brainerd	64,791	343,055	245,665	653,511	376,077
Conservation Incentive Program Payable	187,391	-	-	187,391	221,484
Customer Deposits	333,281	-	-	333,281	326,030
Total Current Liabilities	<u>3,060,906</u>	<u>1,434,683</u>	<u>2,016,485</u>	<u>6,512,074</u>	<u>6,018,165</u>
Total Liabilities	<u>14,356,889</u>	<u>9,980,084</u>	<u>16,845,911</u>	<u>41,182,884</u>	<u>43,875,411</u>
DEFERRED INFLOWS OF RESOURCES					
Pension Related	339,130	113,044	113,044	565,218	790,431
OPEB Related	4,580	1,526	1,526	7,632	-
Total Deferred Outflows of Resources	<u>343,710</u>	<u>114,570</u>	<u>114,570</u>	<u>572,850</u>	<u>790,431</u>
Total Net Position, Liabilities and Deferred Inflows of Resources	<u>\$ 34,710,166</u>	<u>\$ 20,252,091</u>	<u>\$ 36,770,606</u>	<u>\$ 91,732,863</u>	<u>\$ 92,097,140</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2018)**

OPERATING REVENUES	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2019	2018
Utility Revenues					
Residential	\$ 6,202,888	\$ 1,256,745	\$ 1,395,354	\$ 8,854,987	\$ 8,890,866
Commercial	7,592,383	1,141,336	1,475,117	10,208,836	10,323,258
Large Commercial	5,997,428	-	-	5,997,428	5,784,824
City of Brainerd	386,842	99,273	9,047	495,162	521,493
Internal Use	827,031	65,922	603	893,556	903,408
Total Utility Revenues	<u>21,006,572</u>	<u>2,563,276</u>	<u>2,880,121</u>	<u>26,449,969</u>	<u>26,423,849</u>
Other Operating Revenues					
Penalties	127,435	21,433	33,778	182,646	165,738
Other	149,119	33,531	17,617	200,267	362,639
Total Other Operating Revenues	<u>276,554</u>	<u>54,964</u>	<u>51,395</u>	<u>382,913</u>	<u>528,377</u>
Total Operating Revenues	<u>21,283,126</u>	<u>2,618,240</u>	<u>2,931,516</u>	<u>26,832,882</u>	<u>26,952,226</u>
OPERATING EXPENSES					
Generation, Production, and Treatment					
Salaries and Wages	418,757	239,055	408,742	1,066,554	1,035,370
Purchased Services	15,358	121,764	677,886	815,008	806,833
Supplies and Maintenance	13,911	34,349	104,488	152,748	145,031
Employee Benefits	125,118	98,954	134,340	358,412	358,682
Other Charges	32,007	520	25,861	58,388	64,331
Total Generation, Production, and Treatment Expenses	<u>605,151</u>	<u>494,642</u>	<u>1,351,317</u>	<u>2,451,110</u>	<u>2,410,247</u>
Purchased Power	11,928,124	-	-	11,928,124	11,854,449
Distribution and Collection					
Salaries and Wages	1,065,353	364,346	125,697	1,555,396	1,487,365
Purchased Services	178,965	228,486	134,159	541,610	608,199
Supplies and Maintenance	206,182	46,586	12,394	265,162	233,265
Employee Benefits	353,902	120,405	47,985	522,292	486,059
Other Charges	63,911	13,076	75	77,062	63,871
Total Distribution and Collection Expenses	<u>1,868,313</u>	<u>772,899</u>	<u>320,310</u>	<u>2,961,522</u>	<u>2,878,759</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BY DEPARTMENT (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2018)**

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2019	2018
OPERATING EXPENSES (CONTINUED)					
Administration					
Salaries and Wages	\$ 673,043	\$ 252,057	\$ 225,130	\$ 1,150,230	\$ 1,091,057
Purchased Services	222,528	91,263	59,566	373,357	500,462
Supplies and Maintenance	78,627	25,184	15,783	119,594	101,753
Insurance and Bonds	144,807	52,513	72,106	269,426	265,461
Employee Benefits	266,159	113,105	106,992	486,256	570,789
Other Charges	260,728	51,555	49,137	361,420	319,248
Total Administration Expenses	1,645,892	585,677	528,714	2,760,283	2,848,770
Depreciation and Amortization	2,105,012	1,060,433	1,499,142	4,664,587	4,430,554
Total Operating Expenses	18,152,492	2,913,651	3,699,483	24,765,626	24,422,779
OPERATING INCOME (LOSS)	3,130,634	(295,411)	(767,967)	2,067,256	2,529,447
NONOPERATING REVENUE (EXPENSE)					
Interest Income - Investments	93,330	106,817	291,206	491,353	158,285
Interest Income - Notes Receivable	-	-	158,204	158,204	183,686
Bond Premium	17,759	65,781	9,657	93,197	87,115
Interest Expense	(281,750)	(277,217)	(515,160)	(1,074,127)	(1,187,070)
Local Option Sales Tax	-	266,013	1,146,978	1,412,991	1,333,922
Federal Grant Revenue - Build America Bond	-	-	104,911	104,911	118,803
Bond Issuance Costs	-	-	-	-	(44,481)
Gain (Loss) on Disposal of Capital Assets	47,835	1,605	-	49,440	52,945
Net Nonoperating Revenue (Expense)	(122,826)	162,999	1,195,796	1,235,969	703,205
INCOME (LOSS) BEFORE TRANSFERS	3,007,808	(132,412)	427,829	3,303,225	3,232,652
TRANSFERS TO THE CITY	(757,394)	-	-	(757,394)	(691,284)
CHANGE IN NET POSITION	\$ 2,250,414	\$ (132,412)	\$ 427,829	\$ 2,545,831	\$ 2,541,368

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
FOR THE TEN YEARS ENDED DECEMBER 31, 2019
(UNAUDITED)**

	Cost			
	12/31/2018	Additions	Retirements	12/31/2019
Electric Department				
<u>Generation</u>				
Land and Land Improvements	\$ 330,036	\$ -	\$ -	\$ 330,036
Generation Facilities	6,762,033	164,595	-	6,926,628
Machinery and Equipment	34,669	-	-	34,669
Transportation Equipment	16,666	-	-	16,666
Total Generation	<u>7,143,404</u>	<u>164,595</u>	<u>-</u>	<u>7,307,999</u>
<u>Distribution</u>				
Land and Land Improvements	247,935	-	-	247,935
Distribution System	31,062,080	1,861,065	3,691,942	29,231,203
Street and Security Lighting System	659,037	-	-	659,037
Machinery and Equipment	936,843	54,603	15,322	976,124
Transportation Equipment	<u>1,378,355</u>	<u>233,547</u>	<u>156,948</u>	<u>1,454,954</u>
Total Distribution	<u>34,284,250</u>	<u>2,149,215</u>	<u>3,864,212</u>	<u>32,569,253</u>
Total Electric Department	<u>41,427,654</u>	<u>2,313,810</u>	<u>3,864,212</u>	<u>39,877,252</u>
Water Department				
<u>Production</u>				
Structures and Improvements	1,646,237	-	-	1,646,237
Wells, Pumps and Accessories	749,669	39,057	-	788,726
Water Treatment Plant Equipment	<u>1,844,320</u>	<u>259,354</u>	<u>-</u>	<u>2,103,674</u>
Total Production	<u>4,240,226</u>	<u>298,411</u>	<u>-</u>	<u>4,538,637</u>
<u>Distribution</u>				
Distribution System	19,378,633	1,831,702	341,574	20,868,761
Machinery and Equipment	336,916	21,678	3,994	354,600
Transportation Equipment	<u>403,472</u>	<u>-</u>	<u>-</u>	<u>403,472</u>
Total Water Distribution	<u>20,119,021</u>	<u>1,853,380</u>	<u>345,568</u>	<u>21,626,833</u>
Total Water Department	<u>24,359,247</u>	<u>2,151,791</u>	<u>345,568</u>	<u>26,165,470</u>
Wastewater Treatment Department				
Land and Land Improvements	35,485	-	-	35,485
Collection System	5,053,930	11,410	-	5,065,340
Treatment Facility	30,592,319	118,035	-	30,710,354
Machinery and Equipment	389,910	226,149	-	616,059
Transportation Equipment	<u>247,512</u>	<u>-</u>	<u>-</u>	<u>247,512</u>
Total Wastewater Treatment Department	<u>36,319,156</u>	<u>355,594</u>	<u>-</u>	<u>36,674,750</u>
General Plant				
Land and Land Improvements	1,328,384	64,806	-	1,393,190
Service Center	3,906,536	65,187	-	3,971,723
Furniture and Fixtures	482,588	84,051	79,932	486,707
Transportation Equipment	174,477	-	-	174,477
Storage Building	<u>65,800</u>	<u>-</u>	<u>-</u>	<u>65,800</u>
Total General Plant	<u>5,957,785</u>	<u>214,044</u>	<u>79,932</u>	<u>6,091,897</u>
Total Capital Assets in Service	108,063,842	5,035,239	4,289,712	108,809,369
Construction Work in Progress	<u>666,591</u>	<u>2,682,194</u>	<u>2,721,719</u>	<u>627,066</u>
Total Investment in Capital Assets	<u>\$ 108,730,433</u>	<u>\$ 7,717,433</u>	<u>\$ 7,011,431</u>	<u>\$ 109,436,435</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION (CONTINUED)
FOR THE TEN YEARS ENDED DECEMBER 31, 2019
(UNAUDITED)**

Composite Depreciation Rates	Accumulated Depreciation				Percent of Asset Balance
	12/31/2018	Additions	Retirements	12/31/2019	
2.0%	\$ 11,000	\$ 6,504	\$ -	\$ 17,504	5.3%
3.9%	887,722	269,438	-	1,157,160	16.7%
20.0%	4,190	6,934	-	11,124	32.1%
11.8%	10,252	1,970	-	12,222	73.3%
3.9%	913,164	284,846	-	1,198,010	16.4%
2.2%	16,144	5,381	-	21,525	8.7%
5.0%	15,679,088	1,448,858	3,691,942	13,436,004	46.0%
5.1%	376,208	33,773	-	409,981	62.2%
6.9%	653,482	67,198	15,322	705,358	72.3%
6.6%	862,706	95,764	156,948	801,522	55.1%
5.1%	17,587,628	1,650,974	3,864,212	15,374,390	47.2%
	18,500,792	1,935,820	3,864,212	16,572,400	
0.7%	1,607,317	12,234	-	1,619,551	98.4%
8.7%	230,248	68,970	-	299,218	37.9%
8.3%	1,058,125	174,730	-	1,232,855	58.6%
5.6%	2,895,690	255,934	-	3,151,624	69.4%
3.3%	6,135,830	679,331	341,574	6,473,587	31.0%
7.9%	204,597	28,148	3,994	228,751	64.5%
10.3%	197,863	41,421	-	239,284	59.3%
3.5%	6,538,290	748,900	345,568	6,941,622	32.1%
3.8%	9,433,980	1,004,834	345,568	10,093,246	38.6%
0.0%	-	-	-	-	0.0%
2.7%	3,044,887	135,185	-	3,180,072	62.8%
4.2%	10,016,960	1,276,518	-	11,293,478	36.8%
4.2%	319,967	26,176	-	346,143	56.2%
12.1%	67,537	30,058	-	97,595	39.4%
4.0%	13,449,351	1,467,937	-	14,917,288	40.7%
0.5%	201,365	6,520	-	207,885	14.9%
4.2%	2,676,624	168,102	-	2,844,726	71.6%
9.8%	339,080	47,470	77,912	308,638	63.4%
9.9%	120,364	17,341	-	137,705	78.9%
0.0%	65,800	-	-	65,800	100.0%
3.9%	3,403,233	239,433	77,912	3,564,754	58.5%
4.3%	44,787,356	4,648,024	4,287,692	45,147,688	41.5%
	-	-	-	-	
4.2%	<u>\$ 44,787,356</u>	<u>\$ 4,648,024</u>	<u>\$ 4,287,692</u>	<u>\$ 45,147,688</u>	41.3%

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OTHER INFORMATION

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ELECTRIC DISTRIBUTION DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2010 THROUGH 2019
(UNAUDITED)**

	2010	2011	2012	2013	2014	2015
Electric Capital Assets						
In Service (Thousands)	\$ 29,559	\$ 29,876	\$ 30,874	\$ 32,385	\$ 36,146	\$ 39,034
Investment Per Meter	\$ 3,778	\$ 3,825	\$ 3,948	\$ 4,120	\$ 4,558	\$ 4,912
Investment Per Dollar of Electric Revenue	\$ 1.79	\$ 1.70	\$ 1.71	\$ 1.91	\$ 2.01	\$ 2.15
Accumulated Depreciation (Thousands)	\$ 11,380	\$ 11,743	\$ 12,556	\$ 13,651	\$ 14,892	\$ 15,838
Percent of Capital Assets	38.5%	39.3%	40.7%	42.2%	41.2%	40.6%
Annual Depreciation (Thousands)	\$ 1,137	\$ 1,191	\$ 1,199	\$ 1,238	\$ 1,344	\$ 1,520
Percent of Annual Depreciation to Average Capital Assets in Service	3.9%	4.0%	4.0%	3.9%	3.9%	4.0%
Number of Meters (Year-End)	7,824	7,810	7,820	7,861	7,931	7,946
Cost of Power						
KWH Purchased (Thousands)	239,580	242,241	247,092	202,882	186,738	167,978
KWH Generated	-	-	-	-	5,601	18,554
Total Cost (Thousands)	\$ 12,873	\$ 14,488	\$ 14,498	\$ 12,881	\$ 12,270	\$ 11,287
Cost Per KWH Purchased (Cents)	5.37	5.98	5.87	6.35	6.60	6.72
Percent of System Loss	3.7%	3.3%	2.7%	2.1%	3.6%	3.4%
Average Load Factor for Year	70.3%	71.0%	72.4%	67.6%	69.9%	66.8%
Electric Revenue						
KWH Sold (Thousands)	230,756	234,226	240,530	198,534	185,427	180,256
Electric Utility Revenue (Thousands)	\$ 16,485	\$ 17,559	\$ 18,054	\$ 16,973	\$ 18,009	\$ 18,119
Per KWH Sold (Cents)	7.14	7.50	7.51	8.56	9.71	10.05
Gross Margin Per KWH (Cents)	1.77	1.52	1.64	2.21	3.11	3.33
Operating Income (Loss) (Thousands)	\$ 180	\$ (459)	\$ 223	\$ 556	\$ 1,653	\$ 1,666
Change in Net Position (Thousands)	\$ (882)	\$ (1,217)	\$ (772)	\$ (400)	\$ 621	\$ 707

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

2016	2017	2018	2019
\$ 40,295	\$ 43,225	\$ 44,612	\$ 43,103
\$ 5,046	\$ 5,377	\$ 5,510	\$ 5,288
\$ 2.22	\$ 2.23	\$ 2.11	\$ 2.05
\$ 17,441	\$ 19,024	\$ 20,711	\$ 18,888
43.3%	44.0%	46.4%	43.8%
\$ 1,636	\$ 1,763	\$ 1,914	\$ 2,088
4.1%	4.2%	4.4%	4.8%
7,986	8,039	8,096	8,151
166,984	165,645	170,684	167,222
20,116	19,401	19,081	17,744
\$ 12,475	\$ 12,754	\$ 11,854	\$ 11,928
7.47	7.70	6.94	7.10
3.6%	3.5%	3.4%	3.6%
66.5%	66.9%	66.3%	64.3%
180,334	178,511	183,244	178,392
\$ 18,159	\$ 19,412	\$ 21,183	\$ 21,007
10.07	10.87	11.56	11.78
2.60	3.17	4.62	4.68
\$ 556	\$ 1,504	\$ 3,594	\$ 3,131
\$ (457)	\$ 473	\$ 2,690	\$ 2,250

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WATER DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2010 THROUGH 2019
(UNAUDITED)**

	2010	2011	2012	2013	2014	2015
Water Capital Assets						
In Service (Thousands)	\$ 15,384	\$ 15,524	\$ 15,814	\$ 16,153	\$ 17,653	\$ 17,655
Investment Per Meter	\$ 3,326	\$ 3,359	\$ 3,407	\$ 3,473	\$ 3,814	\$ 3,797
Investment Per Dollar of Water Revenue	\$ 8.92	\$ 8.86	\$ 8.03	\$ 7.62	\$ 8.60	\$ 8.11
Accumulated Depreciation (Thousands)	\$ 6,476	\$ 6,866	\$ 7,349	\$ 7,815	\$ 7,949	\$ 7,974
Percent of Capital Assets	42.1%	44.2%	46.5%	48.4%	45.0%	45.2%
Annual Depreciation (Thousands)	\$ 489	\$ 493	\$ 483	\$ 493	\$ 553	\$ 656
Percent of Annual Depreciation to Average Capital Assets in Service	3.2%	3.2%	3.1%	3.1%	3.3%	3.7%
Number of Meters (Year-End)	4,626	4,621	4,642	4,651	4,629	4,650
Cost of Water Production						
Gallons Pumped into Distribution System (Thousand)	514,258	500,195	497,183	507,118	500,441	506,271
Total Cost (Thousands)	\$ 410	\$ 466	\$ 477	\$ 478	\$ 481	\$ 442
Cost Per Thousand Gallons Pumped	\$ 0.80	\$ 0.93	\$ 0.96	\$ 0.94	\$ 0.96	\$ 0.87
Percent of System Loss	12.2%	12.9%	11.8%	14.7%	16.3%	18.7%
Water Revenue						
Gallons Sold (Thousands)	451,584	435,473	438,609	432,521	418,668	411,825
Water Utility Revenue (Thousands)	\$ 1,725	\$ 1,752	\$ 1,969	\$ 2,119	\$ 2,053	\$ 2,177
Per Thousand Gallons Sold	\$ 3.82	\$ 4.02	\$ 4.49	\$ 4.90	\$ 4.90	\$ 5.29
Gross Margin Per Thousand Gallons Sold	\$ 3.02	\$ 3.09	\$ 3.53	\$ 3.96	\$ 3.94	\$ 4.42
Operating Income (Loss) (Thousands)	\$ (34)	\$ (66)	\$ 183	\$ 304	\$ 171	\$ 184
Change in Net Position (Thousands) Before Capital Contributions from City	\$ (171)	\$ (34)	\$ 184	\$ 299	\$ 143	\$ 153

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

2016	2017	2018	2019
\$ 17,930	\$ 24,356	\$ 25,582	\$ 27,467
\$ 3,835	\$ 5,160	\$ 5,368	\$ 5,725
\$ 7.95	\$ 10.43	\$ 10.24	\$ 10.72
\$ 8,608	\$ 9,387	\$ 10,310	\$ 11,009
48.0%	38.5%	40.3%	40.1%
\$ 702	\$ 821	\$ 1,005	\$ 1,060
4.0%	3.9%	4.1%	4.0%
4,675	4,720	4,766	4,798
492,846	482,159	465,743	473,439
\$ 459	\$ 472	\$ 493	\$ 495
\$ 0.93	\$ 0.98	\$ 1.06	\$ 1.05
18.8%	19.5%	15.6%	18.5%
400,226	388,296	393,241	385,936
\$ 2,254	\$ 2,335	\$ 2,499	\$ 2,563
\$ 5.63	\$ 6.01	\$ 6.35	\$ 6.64
\$ 4.70	\$ 5.03	\$ 5.29	\$ 5.59
\$ 72	\$ (87)	\$ (178)	\$ (295)
\$ 12	\$ 133	\$ (122)	\$ (132)

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WASTEWATER TREATMENT DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2010 THROUGH 2019
(UNAUDITED)**

	2010	2011	2012	2013	2014	2015
Wastewater Treatment Capital Assets						
In Service (Thousands)	\$ 26,975	\$ 35,931	\$ 36,329	\$ 36,325	\$ 36,368	\$ 36,403
Investment Per Account	\$ 5,901	\$ 7,862	\$ 7,908	\$ 7,892	\$ 7,937	\$ 7,914
Investment Per Dollar of Wastewater Treatment Revenue	\$ 12.34	\$ 15.91	\$ 15.77	\$ 15.93	\$ 15.78	\$ 15.44
Accumulated Depreciation (Thousands)	\$ 5,402	\$ 4,401	\$ 5,708	\$ 7,046	\$ 8,424	\$ 9,746
Percent of Capital Assets	20.0%	12.2%	15.7%	19.4%	23.2%	26.8%
Annual Depreciation (Thousands)	\$ 986	\$ 1,644	\$ 1,374	\$ 1,384	\$ 1,382	\$ 1,392
Percent of Annual Depreciation to Average Capital Assets in Service	4.8%	5.2%	3.8%	3.8%	3.8%	3.8%
Number of Accounts (Year-End)	4,571	4,570	4,594	4,603	4,582	4,600
Cost of Wastewater Treatment						
Flow in Gallons Processed (Thousands)	675,928	723,764	725,787	677,322	799,681	700,235
Total Treatment Cost (Thousands)	\$ 638	\$ 1,016	\$ 975	\$ 1,082	\$ 1,106	\$ 1,001
Cost Per Thousand Gallons Processed	\$ 0.94	\$ 1.40	\$ 1.34	\$ 1.60	\$ 1.38	\$ 1.43
Percent of System Loss	16.1%	24.7%	24.6%	19.7%	30.7%	22.7%
Wastewater Treatment Revenue						
Flow in Gallons Sold (Thousands)	567,138	545,138	547,053	544,183	554,578	541,213
Wastewater Treatment Utility Revenue (Thousands)	\$ 2,186	\$ 2,258	\$ 2,304	\$ 2,281	\$ 2,304	\$ 2,357
Per Thousand Gallons Sold	\$ 3.85	\$ 4.14	\$ 4.21	\$ 4.19	\$ 4.15	\$ 4.36
Gross Margin Per Thousand Gallons Sold	\$ 2.91	\$ 2.74	\$ 2.87	\$ 2.59	\$ 2.77	\$ 2.93
Operating Income (Loss) (Thousands)	\$ (101)	\$ (1,079)	\$ (706)	\$ (843)	\$ (831)	\$ (642)
Change in Net Position (Thousands)	\$ 840	\$ (402)	\$ (2)	\$ (482)	\$ 2	\$ 61

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

**BRAINERD PUBLIC UTILITIES
 BRAINERD, MINNESOTA
 WASTEWATER TREATMENT DEPARTMENT STATISTICS
 FOR THE TEN YEARS ENDED DECEMBER 31, 2010 THROUGH 2019
 (UNAUDITED)**

2016	2017	2018	2019
\$ 36,453	\$ 37,612	\$ 37,870	\$ 38,240
\$ 7,882	\$ 8,045	\$ 8,040	\$ 8,045
\$ 14.75	\$ 14.38	\$ 13.81	\$ 13.28
\$ 11,113	\$ 12,421	\$ 13,767	\$ 15,250
30.5%	33.0%	36.4%	39.9%
\$ 1,402	\$ 1,429	\$ 1,497	\$ 1,499
3.9%	3.9%	4.0%	3.9%
4,625	4,675	4,710	4,753
764,803	844,303	751,581	808,631
\$ 1,084	\$ 1,189	\$ 1,372	\$ 1,351
\$ 1.42	\$ 1.41	\$ 1.83	\$ 1.67
28.7%	31.8%	23.3%	28.1%
545,513	575,734	567,477	581,822
\$ 2,471	\$ 2,616	\$ 2,742	\$ 2,880
\$ 4.53	\$ 4.54	\$ 4.83	\$ 4.95
\$ 3.11	\$ 3.13	\$ 3.00	\$ 3.28
\$ (719)	\$ (797)	\$ (887)	\$ (768)
\$ 15	\$ 135	\$ (27)	\$ 428

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OTHER REPORTS SECTION



**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, 2019, 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 8, 2020.

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.



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 8, 2020



CliftonLarsonAllen LLP
CLAAconnect.com

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2019, and the related notes to the financial statements, which collectively comprise BPU's basic financial statements and have issued our report thereon dated April 8, 2020.

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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 the entity's 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 8, 2020