

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2025 AND 2024



CPAs | CONSULTANTS | WEALTH ADVISORS

CLAcconnect.com

**BRAINERD PUBLIC UTILITIES
TABLE OF CONTENTS
DECEMBER 31, 2025 AND 2024**

INTRODUCTORY SECTION

Organizational Data 1

FINANCIAL SECTION

Independent Auditors' Report 2
Management's Discussion and Analysis 6
Statements of Net Position 16
Statements of Revenues, Expenses and Changes in Net Position 18
Statements of Cash Flows 20
Notes to Financial Statements 22

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of BPU's Proportionate Share of the Net Pension Liability 56
Schedule of PERA Contributions 57
Schedule of Changes in BPU's OPEB Liability, Related Ratios, and Notes 58
Notes to the Required Supplementary Information 59

SUPPLEMENTARY INFORMATION

Combining Statements of Net Position by Department 65
Combining Statements of Revenues, Expenses and Changes
in Net Position by Department 67
Schedule of Capital Assets and Accumulated Depreciation and Amortization 69

OTHER INFORMATION

Electric Distribution Department Statistics 71
Water Department Statistics 72
Wastewater Treatment Department Statistics 73

OTHER REPORTS SECTION

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance
and other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards 74
Independent Auditors' Report on Minnesota Legal Compliance 76
Schedule of Findings and Responses 77

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ORGANIZATIONAL DATA
DECEMBER 31, 2025**

COMMISSION

		<u>Term Expires December 31,</u>
President	Mike Angland	2027
Vice President	Dolly Wussow	2029
Commission Member	Mark O'Day	2025
Commission Member	Mike Higgins	2026
Commission Member	Vacant	2028

ADMINISTRATION

Public Utilities Director	Paul Sandy
Finance Manager	Danny Loch
Operations Manager	Trent Hawkinson
Water/Wastewater Manager	Charlie Gammon
Business Office Supervisor	Jana Pernula
Electric Distribution Supervisor	Vacant



INDEPENDENT AUDITORS' REPORT

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Brainerd Public Utilities (BPU), an enterprise fund of the City of Brainerd, as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of BPU as of December 31, 2025 and 2024, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of BPU and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of BPU's Proportionate Share of the Net Pension Liability, the Schedule of PERA Contributions, and the Schedule of Changes in BPU's OPEB Liability, Related Ratios, and Notes be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 financial statements, and other knowledge we obtained during our audits of the 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 as whole. The Combining Statements of Net Position by Department, the Combining Statements of Revenues, Expenses and Changes in Net Position by Department, and the Schedule of Capital Assets and Accumulated Depreciation and Amortization are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 GAAS. In our opinion, the Combining Statements of Net Position by Department, the Combining Statements of Revenues, Expenses and Changes in Net Position by Department, and the Schedule of Capital Assets and Accumulated Depreciation are fairly stated, in all material respects, in relation to the financial statements as a whole.

We have previously audited BPU's 2024 financial statements, and we expressed an unmodified audit opinion on the financial statements in our report dated April 24, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

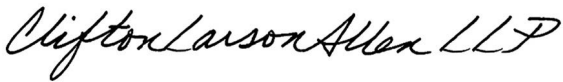
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section, the Electric Distribution Department Statistics, the Water Department Statistics, and the Wastewater Treatment Department Statistics but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2026, 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 results 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
May 20, 2026

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024**

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, 2025 and 2024. This discussion and analysis should be read in conjunction with BPU's financial statements and accompanying notes, which follow this section.

Financial Highlights from 2024 to 2025

- BPU's combined net position increased \$2,253,523, or 3.8%, from \$59,318,169 to \$61,571,692.
- Combined total assets and deferred outflow of resources increased \$468,079, or 0.5%, from \$94,537,957 to \$95,006,036.
- Combined total liabilities decreased \$1,525,417, or 4.6%, from \$33,379,374 to \$31,853,957.
- Combined total operating revenue increased \$1,219,322, or 3.5%, from \$34,487,595 to \$35,706,917.
- Combined total operating expenses increased \$1,036,514, or 3.1%, from \$33,699,019 to \$34,735,533.

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's operations, capital asset program and debt payments are funded entirely through rates, fees and other charges for these utility services. The fund is treated and accounted for as a separate enterprise fund of the City of Brainerd.

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.

The ***Statements of Cash Flows*** are the third required financial statements. 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.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024**

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 73.6% and 73.9% of total assets and deferred outflows of resources as of December 31, 2025 and 2024, respectively. Long-term liabilities represent 23.3% and 26.2% of total liabilities, net position, and deferred inflows of resources as of December 31, 2025 and 2024, respectively. Total net position increased 3.8% and 3.7% as of December 31, 2025 and 2024, respectively.

The largest portion of BPU's net position (75.5%), at December 31, 2025 and (74.8%), at December 31, 2024, 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 2025, \$5,043,536 or 8.2% of BPU's net position represents resources that are restricted for debt service and 8.2% or \$666,024 of BPU's net position represents resources that are restricted for capital outlay. The remaining balance of unrestricted net position of \$9,348,052 or 15.2% may be used to meet BPU ongoing obligations.

For 2024, \$5,649,704 or 9.5% of BPU's net position represents resources that are restricted for debt service and \$621,024 or 1.0% of BPU's net position represents resources that are restricted for capital outlay. The remaining balance of unrestricted net position of \$8,673,027 or 14.6% may be used to meet BPU ongoing obligations

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

Electric operating revenues from 2024 to 2025 increased \$736,708, or 2.7%, from \$27,350,101 to \$28,086,809. The significant change for 2025 was due to an increase in usage from BPU's commercial customers and an increase in utility rates. Purchased power expenses from 2024 to 2025 increased \$136,884, or 0.7%, from \$18,705,357 to \$18,842,241. The significant change for 2025 was due to an increase in power that had to be purchased to match the increase in usage from BPU's commercial customers mentioned above. Net nonoperating revenue (expense) from 2024 to 2025 increased \$142,137, or 6.8%, from \$2,101,427 to \$2,243,564. The significant change for 2025 was an increase in local option sales tax revenue.

Electric operating revenues from 2023 to 2024 increased \$3,725,464, or 15.8%, from \$23,624,637 to \$27,350,101. The significant change for 2024 was due to an increase in usage from BPU's commercial customers and an increase in utility rates. Purchased power expenses from 2023 to 2024 increased \$4,924,058, or 35.7%, from \$13,781,299 to \$18,705,357. The significant change for 2024 was due to an increase in power that had to be purchased to match the increase in usage from BPU's commercial customers mentioned above. Net nonoperating revenue (expense) from 2023 to 2024 increased \$343,316, or 19.5%, from \$1,758,111 to \$2,101,427. The significant change for 2024 was an increase in interest income due to fair market value adjustment.

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024**

Financial Analysis (Continued)

Condensed Statements of Net Position
Table 1

	December 31,			Change	
	2025	2024	2023	2025 to 2024	2024 to 2023
Net Capital Assets	\$ 69,958,289	\$ 69,877,564	\$ 68,672,203	\$ 80,725	\$ 1,205,361
Restricted Assets	9,220,024	8,538,160	9,482,258	681,864	(944,098)
Current Assets	15,260,110	15,466,247	16,335,871	(206,137)	(869,624)
Other Assets	128,083	176,083	213,283	(48,000)	(37,200)
Total Assets	94,566,506	94,058,054	94,703,615	508,452	(645,561)
Deferred Outflows of Resources	439,530	479,903	1,050,947	(40,373)	(571,044)
Total Assets and Deferred Outflows	\$ 95,006,036	\$ 94,537,957	\$ 95,754,562	\$ 468,079	\$ (1,216,605)
Current Liabilities	\$ 9,742,652	\$ 8,605,049	\$ 7,693,877	\$ 1,137,603	\$ 911,172
Long-Term Liabilities	22,111,305	24,774,325	29,564,064	(2,663,020)	(4,789,739)
Total Liabilities	31,853,957	33,379,374	37,257,941	(1,525,417)	(3,878,567)
Net Investment in Capital Assets	46,514,080	44,374,414	40,594,106	2,139,666	3,780,308
Restricted Net Position	5,709,560	6,270,728	6,670,284	(561,168)	(399,556)
Unrestricted Net Position	9,348,052	8,673,027	9,928,926	675,025	(1,255,899)
Total Net Position	61,571,692	59,318,169	57,193,316	2,253,523	2,124,853
Deferred Inflows of Resources	1,580,387	1,840,414	1,303,305	(260,027)	537,109
Total Liabilities, Net Position and Deferred Inflows	\$ 95,006,036	\$ 94,537,957	\$ 95,754,562	\$ 468,079	\$ (1,216,605)

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024**

Financial Analysis (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position
Table 2

	<u>2025</u>	<u>2024</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
OPERATING REVENUES				
Electric	\$ 28,086,809	\$ 27,350,101	\$ 736,708	2.7%
Water	4,116,111	3,700,479	415,632	11.2%
Wastewater Treatment	<u>3,503,997</u>	<u>3,437,015</u>	<u>66,982</u>	1.9%
Total Operating Revenue	35,706,917	34,487,595	1,219,322	3.5%
OPERATING EXPENSES				
Production and Treatment	2,164,048	2,050,001	114,047	5.6%
Purchased Power	18,842,241	18,705,357	136,884	0.7%
Distribution and Collection	3,812,179	3,455,925	356,254	10.3%
Administration	4,333,588	4,068,538	265,050	6.5%
Depreciation and Amortization	<u>5,583,477</u>	<u>5,419,198</u>	<u>164,279</u>	3.0%
Total Operating Expenses	<u>34,735,533</u>	<u>33,699,019</u>	<u>1,036,514</u>	3.1%
OPERATING INCOME (LOSS)	971,384	788,576	182,808	23.2%
NONOPERATING REVENUE (EXPENSE)				
Interest Income - Investments	479,452	568,540	(89,088)	15.7%
Interest Income - Notes Receivable	72,142	104,659	(32,517)	-31.1%
Interest Expense	(603,809)	(663,872)	60,063	-9.0%
Local Option Sales Tax	2,032,071	1,884,504	147,567	7.8%
Federal Grant Revenue - Build America Bond	49,239	186,269	(137,030)	-73.6%
Gain on Disposal of Capital Assets	<u>27,902</u>	<u>21,327</u>	<u>6,575</u>	30.8%
Net Nonoperating Revenue	<u>2,056,997</u>	<u>2,101,427</u>	<u>(44,430)</u>	-2.1%
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CONTRIBUTIONS	3,028,381	2,890,003	138,378	4.8%
TRANSFERS TO THE CITY	<u>(774,858)</u>	<u>(765,150)</u>	<u>(9,708)</u>	1.3%
CHANGE IN NET POSITION	2,253,523	2,124,853	128,670	6.1%
Net Position - Beginning	<u>59,318,169</u>	<u>57,193,316</u>	<u>2,124,853</u>	3.7%
NET POSITION - ENDING	<u>\$ 61,571,692</u>	<u>\$ 59,318,169</u>	<u>\$ 2,253,523</u>	3.8%

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024**

Financial Analysis (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position
Table 2 (Continued)

	<u>2024</u>	<u>2023</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
OPERATING REVENUES				
Electric	\$ 27,350,101	\$ 23,624,637	\$ 3,725,464	15.8%
Water	3,700,479	3,246,504	453,975	14.0%
Wastewater Treatment	<u>3,437,015</u>	<u>3,057,596</u>	<u>379,419</u>	12.4%
Total Operating Revenue	34,487,595	29,928,737	4,558,858	15.2%
OPERATING EXPENSES				
Production and Treatment	2,050,001	2,515,555	(465,554)	-18.5%
Purchased Power	18,705,357	13,781,299	4,924,058	35.7%
Distribution and Collection	3,455,925	3,520,539	(64,614)	-1.8%
Administration	4,068,538	4,126,036	(57,498)	-1.4%
Depreciation and Amortization	<u>5,419,198</u>	<u>5,293,599</u>	<u>125,599</u>	2.4%
Total Operating Expenses	<u>33,699,019</u>	<u>29,237,028</u>	<u>4,461,991</u>	15.3%
OPERATING INCOME (LOSS)	788,576	691,709	96,867	14.0%
NONOPERATING REVENUE (EXPENSE)				
Interest Income - Investments	568,540	395,522	173,018	43.7%
Interest Income - Notes Receivable	104,659	121,159	(16,500)	-13.6%
Bond Premium	-	(58,701)	58,701	-100.0%
Interest Expense	(663,872)	(656,331)	(7,541)	1.1%
Local Option Sales Tax	1,884,504	1,877,308	7,196	0.4%
Federal Grant Revenue - Build America Bond	186,269	70,570	115,699	163.9%
Gain (Loss) on Disposal of Capital Assets	<u>21,327</u>	<u>8,584</u>	<u>12,743</u>	148.5%
Net Nonoperating Revenue	<u>2,101,427</u>	<u>1,758,111</u>	<u>343,316</u>	19.5%
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CONTRIBUTIONS	2,890,003	2,449,820	440,183	18.0%
TRANSFERS TO THE CITY	<u>(765,150)</u>	<u>(783,245)</u>	<u>18,095</u>	-2.3%
CHANGE IN NET POSITION	2,124,853	1,666,575	458,278	27.5%
Net Position - Beginning	<u>57,193,316</u>	<u>55,526,741</u>	<u>1,666,575</u>	3.0%
NET POSITION - ENDING	<u>\$ 59,318,169</u>	<u>\$ 57,193,316</u>	<u>\$ 2,124,853</u>	3.7%

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024**

Capital Assets

Net Capital Assets – Table 3, shows changes in net capital assets from 2023 to 2025. Total net capital assets as of December 31, 2025 and 2024 were \$69,958,289 and \$69,877,564, respectively.

**Net Capital Assets
Table 3**

	December 31,			Change	
	2025	2024	2023	2025 to 2024	2024 to 2023
Electric Department					
Generation System	\$ 4,554,354	\$ 4,825,913	\$ 4,792,759	\$ (271,559)	\$ 33,154
Distribution System	16,233,047	16,715,737	15,446,108	(482,690)	1,269,629
Street and Security Lighting System	221,764	185,516	228,987	36,248	(43,471)
Water Department					
Production Facilities	1,291,021	1,433,898	1,200,960	(142,877)	232,938
Distribution System	21,007,464	21,471,134	21,091,973	(463,670)	379,161
Wastewater Treatment Department					
Lift Station Facilities	5,640,489	4,690,619	2,268,466	949,870	2,422,153
Treatment Facilities	12,447,006	13,773,754	14,607,021	(1,326,748)	(833,267)
Land and Land Improvements	1,838,348	1,851,796	1,864,144	(13,448)	(12,348)
Machinery and Equipment	503,662	442,930	482,788	60,732	(39,858)
Furniture and Fixtures	334,513	261,511	319,637	73,002	(58,126)
Transportation Equipment	1,085,083	638,764	555,607	446,319	83,157
Service Center	297,179	424,374	514,571	(127,195)	(90,197)
Construction in Progress	4,086,767	2,797,211	4,908,481	1,289,556	(2,111,270)
Right-to-Use Assets	417,592	364,407	390,701	53,185	(26,294)
Total	<u>\$ 69,958,289</u>	<u>\$ 69,877,564</u>	<u>\$ 68,672,203</u>	<u>\$ 80,725</u>	<u>\$ 1,205,361</u>

The changes in capital assets for the past three years and the events causing those changes are noted below. The main reason for the decrease in net capital assets is due to the investment in the wastewater treatment department's projects finishing up which decreased \$1.8 million from 2024 to 2025.

	2025	2024	2023
Additions and Transfers to Capital Assets Being Depreciated (By Department)			
Electric	\$ 1,960,993	\$ 3,456,432	\$ 1,728,493
Water	637,831	1,886,029	8,059,659
Wastewater Treatment	1,389,238	3,194,555	614,882
General Plant	226,345	130,896	263,623
Total	4,214,407	8,667,912	10,666,657
Additions to Construction in Progress	5,521,101	5,159,072	6,467,612
Transfers from Construction in Progress to Capital Assets Being Depreciated	(4,231,545)	(7,270,342)	(8,446,545)
Deletions and Transfers	-	-	(71,292)
Normal Annual Depreciation/Amortization	<u>(5,512,130)</u>	<u>(5,365,438)</u>	<u>(5,256,213)</u>
Total	<u>\$ (8,167)</u>	<u>\$ 1,191,204</u>	<u>\$ 3,360,219</u>

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024**

Capital Assets (Continued)

Major capital asset transactions for 2025 and 2024 include the following:

	<u>2025</u>	<u>2024</u>
<u>Electric</u>		
Distribution Transformers and Metering Purchased	\$ -	\$ 27,399
Distribution System Improvements	1,065,002	1,331,660
SCADA/Fiber System	-	122,217
Substation Improvements	107,793	1,387,003
Hydroelectric Dam Improvements	18,308	339,556
Street and Security Lighting	88,029	-
Machinery and Equipment	266,446	10,783
Vehicle Purchases	509,287	190,594
<u>Water</u>		
Distribution System Improvements	554,304	1,329,237
Well Improvements	-	48,648
Machinery and Equipment	42,106	-
Booster station Improvements	52,803	43,591
Kubota Side by Side	-	20,834
Water Treatment Plant Improvements	-	33,679
Chemical Storage Building	-	9,420
Tower Improvements	30,724	-
<u>Wastewater</u>		
Lift Station Improvements	1,199,446	563,717
River Crossing Collection Improvements	89,503	2,113,866
Treatment Facility Improvements	39,195	490,934
Machinery and Equipment	61,094	26,037
<u>General Plant</u>		
Software and Computer System Improvements	90,366	15,164
Vehicles	-	51,527
Service Center Improvements	-	99,085
<u>Construction in Progress</u>		
Water plant Automation/Actuators	215,737	203,537
Reclamation/Backwash Tank	303,136	224,045
Security System Upgrades	58,429	55,406
SCADA Improvements	154,815	93,623
Expansion of Distribution Feeder System	1,780,426	-
Total	<u>\$ 6,726,949</u>	<u>\$ 8,831,562</u>

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024**

Long-Term Obligations

The following table presents the change in the outstanding liabilities of BPU from 2023 to 2025.

	Balance as of December 31,			Increase (Decrease)	
	2025	2024	2023	2025 to 2024	2024 to 2023
Utility Revenue Bonds					
Series 2014A	\$ 1,875,000	\$ 2,305,000	\$ 2,720,000	\$ (430,000)	\$ (415,000)
Series 2015A	-	185,000	365,000	(185,000)	(180,000)
Series 2016A	2,833,400	3,267,400	3,676,600	(434,000)	(409,200)
Series 2017A	1,435,000	2,125,000	2,820,000	(690,000)	(695,000)
Series 2018A	920,000	1,210,000	1,490,000	(290,000)	(280,000)
G.O. Bonds					
Series 2021A	4,480,000	4,755,000	5,025,000	(275,000)	(270,000)
G.O. Bonds					
Series 2023A	2,845,000	2,955,000	2,955,000	(110,000)	-
G.O. Bonds					
Series 2024A	1,225,000	1,225,000	-	-	1,225,000
G.O. Bonds					
Series 2025A	1,725,000	-	-	1,725,000	-
G.O. Revenue Notes/Bonds					
Series 2009 - Build America	5,233,000	6,870,000	8,455,000	(1,637,000)	(1,585,000)
Lease Liability	455,860	395,687	416,272	60,173	(20,585)
Compensated Absences	566,904	531,055	1,071,960	35,849	(540,905)
Net Pension Liability	1,738,521	2,068,564	3,405,460	(330,043)	(1,336,896)
Revenue Bond Premium	747,949	798,932	852,864	(50,983)	(53,932)
OPEB Obligation	351,591	332,217	366,208	19,374	(33,991)
Total Long-Term Liabilities	26,432,225	29,023,855	33,619,364	(2,591,630)	(4,595,509)
Less: Current Portion					
Utility Revenue Bonds					
Series 2014A	445,000	430,000	415,000	15,000	15,000
Series 2015A	-	185,000	180,000	(185,000)	5,000
Series 2016A	452,600	434,000	409,200	18,600	24,800
Series 2017A	710,000	690,000	695,000	20,000	(5,000)
Series 2018A	300,000	290,000	280,000	10,000	10,000
G.O. Bonds					
Series 2021A	275,000	275,000	270,000	-	5,000
G.O. Bonds					
Series 2023A	145,000	110,000	-	35,000	110,000
G.O. Bonds					
Series 2024A	90,000	-	-	90,000	-
G.O. Revenue Notes/Bonds					
Series 2009 - Build America	1,689,000	1,637,000	1,585,000	52,000	52,000
Lease Liability	28,604	17,606	29,171	10,998	(11,565)
Compensated Absences	175,000	175,000	175,000	-	-
OPEB Obligation	10,716	5,924	16,929	4,792	(11,005)
Total Current Portion of Long-Term Liabilities	4,320,920	4,249,530	4,055,300	71,390	194,230
Net Long-Term Liabilities	\$ 22,111,305	\$ 24,774,325	\$ 29,564,064	\$ (2,663,020)	\$ (4,789,739)

**BRainerd PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024**

Long-Term Obligations (Continued)

The total net long-term liabilities at December 31, 2025, 2024, and 2023 was \$22.1 million, \$24.7 million, and \$29.6 million, respectively. Total net long-term liabilities decreased \$2,663,020 from 2024 to 2025 due primarily to the repayment of the outstanding Utility Revenue Bonds and G.O. Bonds totaling \$4,227,372 offset by an increase in long term liabilities of \$1,849,524. Net pension liability from 2024 to 2025 decreased \$155,043, from \$2,068,564 to \$1,738,521, due to a change in assumptions.

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 2025 Operating Budget Analysis and the 2026 Operating Budget approved by the Commission is presented as follows:

	(In Thousands of Dollars)			
	2025 Budget	2025 Actual	Favorable (Unfavorable) Variance	2026 Budget
Utility Operating Revenue	\$ 37,990	\$ 34,401	\$ (3,589)	\$ 37,654
Other Operating Revenue	711	1,306	595	696
Total Operating Revenue	38,701	35,707	(2,994)	38,350
Purchased Power	19,960	18,842	1,118	20,000
Other Operating Expense	13,757	10,310	3,447	13,697
Depreciation and Amortization Expense	5,255	5,583	(328)	5,517
Total Operating Expense	38,972	34,735	4,237	39,214
Operating Income	(271)	972	1,243	(864)
Net Nonoperating Revenue	2,030	2,057	27	1,970
Income Before Operating Transfers to City	1,759	3,029	1,270	1,106
Operating Transfers to the City	(816)	(775)	41	(863)
Change in Net Position	\$ 943	\$ 2,254	\$ 1,311	\$ 243

**BRAINERD PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024**

Factors Bearing on the Future

The State of Minnesota has a mandatory renewable energy criterion for all utility providers to be carbon free by the year 2040. As this mandate approaches the utility will require a substantial increase in purchased power costs as the renewable energy credits are expected to be considerably more in cost than current day prices. Related to this mandate the utility is pursuing the acquisition of one additional hydro generator with approximately \$7.8M in cost, and related grant revenue, to assist in the acquisition cost of this generator project to meet some of the needs of the carbon free state initiative. Funding was not obtained during 2025 and this project and future funding have been postponed until funding is available.

In 2024, the BPU Commission began work on a water reclamation tank, this is funded by a \$5M grant through the state of Minnesota on a reimbursement basis. This project bid exceeded the funding available and is being re-bid with additional funding being requested. This project was re-bid during 2025 on a Construction Management at risk basis, and has progressed through engineering and will go into construction phase during 2026.

The appointed commissioners considered multiple factors as it set the 2026 budget:

- 1) Total combined commission operations are expecting net position to increase \$243,598 or 0.3% of total revenue.
- 2) The Electric department is budgeting an increase in net position of \$74,130 or 0.2% of operating budget. Primary cost driver is purchased power costs and city contribution changes.
- 3) The Water department is budgeting an increase in net position of \$48,512 or 1.0% of total revenues.
- 4) The wastewater department is expected to have an increase in net position of \$120,956 or 3.3% of operational revenue.

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 Manager, 8027 Highland Scenic Road, Brainerd, MN 56401 or by email at dloch@bpu.org or by phone at (218) 825-3213.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF NET POSITION
DECEMBER 31, 2025 AND 2024**

	2025	2024
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CAPITAL ASSETS		
Construction in Progress	\$ 4,086,767	\$ 2,797,211
In Service	138,813,240	134,711,896
Total Investment in Capital Assets	142,900,007	137,509,107
Less: Accumulated Depreciation/Amortization	(72,941,718)	(67,631,543)
Net Capital Assets	69,958,289	69,877,564
RESTRICTED ASSETS		
Cash and Investments	7,447,142	6,217,718
Bonds and Notes Receivable	1,744,334	2,290,000
Notes Receivable - Interest	28,548	30,442
Total Restricted Assets	9,220,024	8,538,160
CURRENT ASSETS		
Cash and Investments	6,740,571	6,775,722
Accounts Receivable	4,709,406	5,579,983
Interest Receivable	36,353	27,529
Due from the City of Brainerd	766,894	2,265
Supplies	2,196,523	2,227,315
Prepaid Expenses	810,363	853,433
Total Current Assets	15,260,110	15,466,247
OTHER ASSETS		
Service Territory Acquisitions, Net of Accumulated Depreciation	128,083	176,083
Total Assets	94,566,506	94,058,054
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	380,444	402,737
OPEB Related	59,086	77,166
Total Deferred Outflows of Resources	439,530	479,903
Total Assets and Deferred Outflows of Resources	\$ 95,006,036	\$ 94,537,957

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2025 AND 2024**

	2025	2024
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
NET POSITION		
Net Investment in Capital Assets	\$ 46,514,080	\$ 44,374,414
Restricted for Debt Service	5,043,536	5,649,704
Restricted for Capital Outlay	666,024	621,024
Unrestricted	9,348,052	8,673,027
Total Net Position	61,571,692	59,318,169
LONG-TERM LIABILITIES		
Bonds Payable, Less Current Portion	19,212,749	21,645,332
Lease Liability	427,256	378,081
Compensated Absences	391,904	356,055
Net Pension Liability	1,738,521	2,068,564
Other Postemployment Benefit Liability	340,875	326,293
Total Long-Term Liabilities	22,111,305	24,774,325
CURRENT LIABILITIES		
Accounts and Contracts Payable	2,049,391	1,956,010
Bonds Payable	4,106,600	4,051,000
Lease Liability	28,604	17,606
Compensated Absences	175,000	175,000
Other Postemployment Benefit Liability	10,716	5,924
Accrued Expenses		
Salaries and Withholding Taxes	450,882	431,818
Sales Taxes	108,112	222,041
Current Liabilities from Restricted Assets		
Bond Interest	226,897	233,983
Payable to City of Brainerd	1,317,256	346,262
Conservation Incentive Program Payable	614,119	569,589
Customer Deposits	655,075	595,816
Total Current Liabilities	9,742,652	8,605,049
Total Liabilities	31,853,957	33,379,374
DEFERRED INFLOWS OF RESOURCES		
Pension Related	1,418,853	1,655,977
OPEB Related	161,534	184,437
Total Deferred Inflows of Resources	1,580,387	1,840,414
 Total Net Position, Liabilities, and Deferred Inflows of Resources	 \$ 95,006,036	 \$ 94,537,957

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

	2025	2024
OPERATING REVENUES		
Utility Revenues		
Residential	\$ 10,351,152	\$ 9,510,829
Commercial	14,258,944	13,470,090
Large Commercial	9,275,481	10,066,242
City of Brainerd	515,341	485,561
Total Utility Revenues	34,400,918	33,532,722
Other Operating Revenues		
Penalties	266,316	208,181
Other	1,039,683	746,692
Total Other Operating Revenues	1,305,999	954,873
Total Operating Revenues	35,706,917	34,487,595
OPERATING EXPENSES		
Generation, Production, and Treatment		
Salaries and Wages	1,133,757	1,056,816
Purchased Services	349,169	295,741
Supplies and Maintenance	265,568	297,397
Employee Benefits	397,531	384,505
Other Charges	18,023	15,542
Total Generation, Production, and Treatment Expenses	2,164,048	2,050,001
Purchased Power	18,842,241	18,705,357
Distribution and Collection		
Salaries and Wages	2,284,153	2,042,106
Purchased Services	290,906	307,266
Supplies and Maintenance	536,384	401,853
Employee Benefits	621,399	632,964
Other Charges	79,337	71,736
Total Distribution and Collection Expenses	3,812,179	3,455,925
Administration		
Salaries and Wages	1,223,739	1,248,223
Purchased Services	1,442,659	1,035,499
Supplies and Maintenance	13,327	22,026
Insurance and Bonds	410,411	396,368
Employee Benefits	115,695	391,929
Other Charges	1,127,757	974,493
Total Administration Expenses	4,333,588	4,068,538
Depreciation and Amortization	5,583,477	5,419,198
Total Operating Expenses	34,735,533	33,699,019

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

	2025	2024
OPERATING INCOME	\$ 971,384	\$ 788,576
NONOPERATING REVENUE (EXPENSE)		
Interest Income - Investments	479,452	568,540
Interest Income - Notes Receivable	72,142	104,659
Interest Expense	(603,809)	(663,872)
Local Option Sales Tax	2,032,071	1,884,504
Federal Grant Revenue - Build America Bond	49,239	186,269
Gain on Disposal of Capital Assets	27,902	21,327
Net Nonoperating Revenue (Expense)	2,056,997	2,101,427
INCOME BEFORE TRANSFERS	3,028,381	2,890,003
TRANSFERS TO THE CITY	(774,858)	(765,150)
CHANGE IN NET POSITION	2,253,523	2,124,853
Net Position - Beginning	59,318,169	57,193,316
NET POSITION - ENDING	\$ 61,571,692	\$ 59,318,169

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 36,577,494	\$ 33,893,889
Cash Payments to Employees for Services	(6,251,684)	(6,480,627)
Cash Payments to Other Suppliers of Goods or Services	(23,218,679)	(22,156,633)
Net Cash Provided by Operating Activities	7,107,131	5,256,629
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Primary Government	(568,493)	(755,842)
Principal Received on Notes Receivable	545,666	892,589
Net Cash Provided (Used) by Noncapital Financing Activities	(22,827)	136,747
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to Utility Plant	(5,504,780)	(6,570,057)
Additions to Service Territories	(23,347)	(16,560)
Proceeds from Local Option Sales Tax	2,032,071	1,884,504
Principal Paid on Long-Term Debt	(4,051,000)	(3,834,200)
Interest Paid on Long-Term Debt	(661,878)	(826,785)
Bond Premium	96,887	101,710
Amounts Received from Utility Portion of Bonds	1,725,000	1,225,000
Proceeds from Lease Liability	-	14,157
Principal Received on Notes Receivable	-	528,334
Federal Grant Revenue - Build America Bond	49,239	186,269
Principal Paid on Lease Liability	(28,719)	(34,742)
Net Cash Used by Capital and Related Financing Activities	(6,366,527)	(7,342,370)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	544,664	684,282
Purchase of Investments	(353,947)	(2,519,706)
Redemption of Investments	-	3,609,111
Net Cash Provided by Investing Activities	190,717	1,773,687
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	908,494	(175,307)
Cash and Cash Equivalents - Beginning	4,349,209	4,524,516
CASH AND CASH EQUIVALENTS - ENDING	\$ 5,257,703	\$ 4,349,209

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

	2025	2024
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 971,384	\$ 788,576
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	5,583,477	5,419,198
Revenue Reduced for Uncollectible Accounts	5,643	8,236
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	864,934	(601,942)
Prepaid Expenses	43,070	(3,274)
Supplies	30,792	(245,889)
Change in Deferred Outflows of Resources - OPEB	18,080	33,877
Change in Deferred Outflows of Resources - Pension	22,293	537,167
 Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable	(20,548)	328,429
Accrued Liabilities	78,323	177,088
Conservation Incentive Program Payable	44,530	189,846
Accrued Compensated Absences	35,849	(540,905)
Other Postemployment Benefit Liability	19,374	(33,991)
Change in Net Pension Liability	(330,043)	(1,336,896)
Change in Deferred Inflows of Resources - OPEB	(22,903)	24,251
Change in Deferred Inflows of Resources - Pension	(237,124)	512,858
 Net Cash Provided by Operating Activities	\$ 7,107,131	\$ 5,256,629
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and Investments - Current Assets	\$ 6,740,571	\$ 6,775,722
Cash and Investments - Restricted Assets	7,447,142	6,217,718
Cash and Investments - Statements of Net Position	14,187,713	12,993,440
 Less: Investments not Meeting the Definition of Cash Equivalents	8,930,010	8,644,231
 Cash and Cash Equivalents - Ending	\$ 5,257,703	\$ 4,349,209
 NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Net Decrease in Fair Value of Investments	\$ (169,191)	\$ (379,869)
Acquisition of Plant Financed by Lease Liability	88,892	14,157
Amortization of Premiums	147,870	155,642

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

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 Electric, Water and Wastewater Treatment Departments are treated as a single enterprise fund. 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

The financial statements include the operations of the City of Brainerd's Public Utilities. BPU's principal operations is providing electric, water and wastewater services to local residents and business customers residing in Brainerd, Minnesota.

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 nonoperating 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, 2025 AND 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are defined as assets with an initial individual cost of more than \$10,000 beginning in 2025, an increase from the capital asset policy of \$5,000 for the year ended December 31, 2024 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

Right-to-use lease assets are initially measured at the present value of payments expected to be made during the lease term, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

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, 2025 and 2024 was zero for both years.

Supplies

Supplies consist principally of material and supplies held for consumption and are recorded at cost using the first in-first out method. The cost of supplies are recorded as an expense when consumed.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. Expenses are allocated over the periods benefited.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Employees are permitted to accumulate up to 240 hours of unused vacation benefits and 960 hours of unused sick benefits. The liability for compensated absences reported in the statement of net position consists of leave that has not been used that is attributable to services already rendered, accumulates and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability also includes amounts for leave that has been used for time off but has not yet been paid in cash or settled through noncash means and certain other types of leave. 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 liabilities 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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

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 accrues 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 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 financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Emphasis of Matter

The Electric, Water and Wastewater Treatment Departments are treated as a single enterprise fund of the City of Brainerd and present only the enterprise fund activity and does not present the financial position of the City of Brainerd. 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 financial statements include the operations of the City of Brainerd's Public Utilities. BPU's principal operations is providing electric, water and wastewater services to local residents and business customers residing in Brainerd, Minnesota.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2024, from which the summarized information was derived.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 2 CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2025 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ 2,797,211	\$ 5,521,101	\$ 4,231,545	\$ 4,086,767
Capital Assets, Being Depreciated				
Electric	47,788,109	1,960,993	50,062	49,699,040
Water	38,605,605	637,831	22,340	39,221,096
Wastewater Treatment	41,063,980	1,389,238	50,154	42,403,064
General Plant	6,786,785	226,345	22,710	6,990,420
Total Capital Assets, Being Depreciated	134,244,479	4,214,407	145,266	138,313,620
Less Accumulated Depreciation for:				
Electric	(24,723,765)	(2,197,222)	(50,062)	(26,870,925)
Water	(15,700,573)	(1,244,378)	(22,340)	(16,922,611)
Wastewater Treatment	(22,273,369)	(1,772,547)	(50,154)	(23,995,762)
General Plant	(4,830,826)	(262,276)	(22,710)	(5,070,392)
Total Accumulated Depreciation	(67,528,533)	(5,476,423)	(145,266)	(72,859,690)
Total Capital Assets, Being Depreciated, Net	66,715,946	(1,262,016)	-	65,453,930
Right-to-Use Lease Assets:				
Equipment	467,417	88,892	56,689	499,620
Less Accumulated Amortization:				
Equipment	(103,010)	(35,707)	(56,689)	(82,028)
Total Right-to-Use Lease Assets, Net	364,407	53,185	-	417,592
Net Capital Assets	<u>\$ 69,877,564</u>	<u>\$ 4,312,270</u>	<u>\$ 4,231,545</u>	<u>\$ 69,958,289</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 2 CAPITAL ASSETS (CONTINUED)

A summary of capital asset activity for the year ended December 31, 2024 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ 4,908,481	\$ 5,159,072	\$ 7,270,342	\$ 2,797,211
Capital Assets, Being Depreciated				
Electric	44,331,677	3,456,432	-	47,788,109
Water	36,719,576	1,886,029	-	38,605,605
Wastewater Treatment	37,869,425	3,194,555	-	41,063,980
General Plant	6,655,889	130,896	-	6,786,785
Total Capital Assets, Being Depreciated	125,576,567	8,667,912	-	134,244,479
Less Accumulated Depreciation for:				
Electric	(22,578,355)	(2,145,410)	-	(24,723,765)
Water	(14,426,643)	(1,273,930)	-	(15,700,573)
Wastewater Treatment	(20,626,032)	(1,647,337)	-	(22,273,369)
General Plant	(4,572,516)	(258,310)	-	(4,830,826)
Total Accumulated Depreciation	(62,203,546)	(5,324,987)	-	(67,528,533)
Total Capital Assets, Being Depreciated	63,373,021	3,342,925	-	66,715,946
Right-to-Use Lease Assets:				
Equipment	461,978	14,157	8,718	467,417
Less Accumulated Amortization:				
Equipment	(71,277)	(40,451)	(8,718)	(103,010)
Total Right-to-Use Lease Assets, Net	390,701	(26,294)	-	364,407
Net Capital Assets	\$ 68,672,203	\$ 8,475,703	\$ 7,270,342	\$ 69,877,564

NOTE 3 RESTRICTED ASSETS

Cash and Investments

At December 31, 2025 and 2024, restricted cash and investments consisted of the following:

	2025	2024
Customer Deposits	\$ 655,075	\$ 595,816
City of Brainerd Contribution	1,390,185	346,262
Conservation Incentive Program	614,119	569,589
Electric Utility Revenue Bonds Debt Service Reserve	1,117,250	1,117,250
General Obligation Revenue Notes and Bonds Debt Service Reserve (Water and Wastewater)	3,670,513	3,588,801
Total Restricted Cash	\$ 7,447,142	\$ 6,217,718

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

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

Notes Receivable

On February 17, 2009, the City of Brainerd, on behalf of BPU, entered into a financing agreement in a principal amount not to exceed \$11,667,000 with the City of Baxter related to the financing of the expansion of the wastewater treatment facility. Baxter will own one-third share of the expanded WWTF's capacity and Brainerd will own two-thirds of the expanded WWTF's capacity. The financing of the expanded WWTF is being funded by 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, 2025, is as follows:

	<u>City of Baxter</u>	<u>City of Brainerd</u>	<u>Total</u>
Beginning Balance	\$ 2,290,000	\$ -	\$ 2,290,000
Payments Received	(545,666)	-	(545,666)
Ending Balance	<u>\$ 1,744,334</u>	<u>\$ -</u>	<u>\$ 1,744,334</u>

Note receivable activity for the year ended December 31, 2024, is as follows:

	<u>City of Baxter</u>	<u>City of Brainerd</u>	<u>Total</u>
Beginning Balance	\$ 2,818,334	\$ 892,589	\$ 3,710,923
Payments Received	(528,334)	(892,589)	(1,420,923)
Ending Balance	<u>\$ 2,290,000</u>	<u>\$ -</u>	<u>\$ 2,290,000</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

Interest accrued on the notes receivable as of December 31, 2025 and 2024 of \$28,548 and \$30,442, respectively, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the years ended December 31, 2025 and 2024 was \$72,142 and \$104,659, respectively. Interest received from Brainerd, which is recorded as interest income for the years ended December 31, 2025 and 2024, was \$0 and \$26,851, respectively.

NOTE 4 DEPOSITS AND INVESTMENTS

Cash and investments are presented at December 31, 2025 and 2024, as follows:

	2025	2024
Restricted Cash and Investments	\$ 7,447,142	\$ 6,217,718
Current Cash and Investments	6,740,571	6,775,722
Total	\$ 14,187,713	\$ 12,993,440

Cash and investments at December 31, 2025 and 2024, consisted of the following:

	2025	2024
Petty Cash	\$ 1,500	\$ 1,500
Deposits	3,697,084	4,151,589
Investments	10,489,129	8,840,351
Total	\$ 14,187,713	\$ 12,993,440

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.

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

BPU's deposits in financial institutions at December 31, 2025 and 2024 were entirely covered by federal depository insurance or collateral in accordance with Minnesota Statutes.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

Under the provisions of the City of Brainerd's investment policy revised by Council on February 3, 2025, previously revised on February 6, 2023 with no major changes 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, 2025 and 2024 by maturity:

Investment Type	Investment Maturities (in Years)			Fair Value	% of Investments
	Less Than 1	1-5	6-10		
December 31, 2025					
Negotiable CDs	\$ 2,277,524	\$ 4,703,818	\$ 490,091	\$ 7,471,433	N/A
US Treasury Note	-	750,904	-	750,904	7.2%
FHLMC	-	468,210	-	468,210	4.5%
FFCB	-	239,463	-	239,463	2.3%
Money Market	1,559,119	-	-	1,559,119	14.9%
Total	<u>\$ 3,836,643</u>	<u>\$ 6,162,395</u>	<u>\$ 490,091</u>	<u>\$ 10,489,129</u>	28.8%
December 31, 2024					
Investment Maturities (in Years)					
Investment Type	Less Than 1	1-5	6-10	Fair Value	% of Investments
Negotiable CDs	\$ 1,800,931	\$ 5,699,268	\$ 472,125	\$ 7,972,324	N/A
FHLMC	-	441,945	-	441,945	5.0%
FFCB	-	229,962	-	229,962	2.6%
Money Market	196,120	-	-	196,120	2.2%
Total	<u>\$ 1,997,051</u>	<u>\$ 6,371,175</u>	<u>\$ 472,125</u>	<u>\$ 8,840,351</u>	9.8%

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Risk Disclosures (Continued)

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, 2025 and 2024 are as follows:

Investment Type	S & P Rating	Investment Type	S & P Rating
December 31, 2025		December 31, 2024	
Negotiable CDs	NA	Negotiable CDs	NA
FHLMC	AAA	FHLMC	AAA
FFCB	NA	FFCB	NA
Money Market	NA	Money Market	NA
US Treasury	NA		
NA - Not Rated			

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, 2025 and 2024, 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, 2025 AND 2024**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Risk Disclosures (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, 2025 and 2024, consisted of the following:

Type	Level	2025	2024
Negotiable CDs	2	\$ 7,471,433	\$ 7,972,324
US Treasury Note	1	750,904	-
FHLMC	2	468,210	441,945
FFCB	2	239,463	229,962
Money Market	NA	1,559,119	196,120
Total Investments		\$ 10,489,129	\$ 8,840,351

NA - Recorded at Amortized Cost

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, 2025 and 2024, BPU owed the City the following:

	2025	2024
Monthly Operating Contribution	\$ 267,015	\$ 84,070
Reimbursement of Other Costs	699,127	19,550
Wastewater Collection and Storm Sewer Charges	351,114	242,642
Total	\$ 1,317,256	\$ 346,262

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 6 LONG-TERM LIABILITIES

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

On March 22, 2018, the City of Brainerd, on behalf of BPU, issued \$2,720,000 in General Obligation Utility Revenue Bonds, Series 2018A, with interest rates from 3.0% to 5.0%, maturing in February 2028, for construction of new elevated water tower and reconstruction of business highway 371. Also, as part of this bond 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 2018A, with interest rate of 5.0%, matured in February 2023, for the purchase of capital equipment. The electric portion is \$97,600, the water portion is \$79,300, and the sewer portion is \$128,100. Also, as part of this bond issue, the City's portion related to capital equipment acquisitions is \$955,000. The total amount of the certificates of indebtedness is \$1,260,000.

On September 20, 2021, the City of Brainerd, on behalf of BPU, issued \$5,250,000 in General Obligation Bonds, Series 2021A, with interest rates from 4.25% to 5.0%, maturing in February 2027, for improvements to the water system. Also, as part of this debt issue, the City's portion related to street improvements is \$1,655,000. The total amount of the debt issue is \$6,905,000.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

On November 16, 2023, the City of Brainerd, on behalf of BPU, issued \$2,955,000 in General Obligation Bonds, Series 2023A, with interest rates from 4.125% to 5.0%, maturing in February 2039, for improvements to the water system and construction of a sewer river crossing project. Also, as part of this debt issue, the City's portion related to utility improvements is \$2,155,000. The total amount of the debt issue is \$5,110,000.

On December 18, 2024, the City of Brainerd, on behalf of BPU, issued \$1,225,000 in General Obligation Bonds, Series 2024A, with interest rates from 4.0% to 5.0%, maturing in February 2035, for improvements to the water system. Also, as part of this debt issue, the City's portion related to utility improvements is \$1,685,000. The total amount of the debt issue is \$2,910,000.

On November 20, 2025, the City of Brainerd, on behalf of BPU, issued \$1,725,000 in General Obligation Bonds, Series 2055A, with interest rates from 4.125% to 5.0%, maturing in February 2046, for water utility improvements. Also, as part of this debt issue, the City's portion related to utility improvements is \$1,550,000. The total amount of the debt issue is \$3,275,000.

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, 2025 was \$1,117,250. The interest payments are made semi-annually on June 1 and December 1, and principal payments on December 1. Net revenue available for debt service was \$3,564,966 as of December 31, 2025. Principal and interest paid from net revenue available for debt service totaled \$1,120,000 and \$125,837, respectively.

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, 2025 was \$1,858,578. 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, 2025 was \$0. The interest payments are made semi-annually on February 1 and August 1, and principal payments on February 1. Net revenue available for debt service was \$1,770,283 as of December 31, 2025. Principal and interest paid from net revenue available for debt service totaled \$185,000 and \$322, respectively.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

General Obligation Utility Revenue Bonds, Series 2016A

The resolutions authorizing the issuance of utility revenue bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. The amount shown as restricted cash and investments as of December 31, 2025 was \$430,179 (Water portion) and \$103,243 (Wastewater portion). The interest payments are made semi-annually on April 1 and October 1, and principal payments on October 1. Net revenue available for debt service was \$1,569,108 as of December 31, 2025. Principal and interest paid from net revenue available for debt service totaled \$434,000 and \$71,755, respectively.

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, 2025 was \$339,255. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1. Net revenue available for debt service was \$1,770,283 as of December 31, 2025. Principal and interest paid from net revenue available for debt service totaled \$290,000 and \$28,765, respectively.

General Obligation Bonds, Series 2021A

The resolutions authorizing the issuance of general obligation 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, 2025 was \$418,735. The interest payments are made semi-annually on February 1 and August 1, and principal payments on February 1. Net revenue available for debt service was \$1,569,108 as of December 31, 2025. Principal and interest paid from net revenue available for debt service totaled \$275,000 and \$131,828, respectively.

General Obligation Bonds, Series 2023A

The resolutions authorizing the issuance of general obligation 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, 2025 was \$107,231 (Water portion) and \$177,043 (Wastewater portion). The interest payments are made semi-annually on February 1 and August 1, and principal payments on February 1. Net revenue available for debt service was \$3,591,746 as of December 31, 2025. Principal and interest paid from net revenue available for debt service totaled \$110,000 and \$134,853, respectively.

General Obligation Bonds, Series 2024A

The resolutions authorizing the issuance of general obligation 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, 2025 was \$105,000. The interest payments are made semi-annually on February 1 and August 1, and principal payments on February 1. Net revenue available for debt service was \$1,770,283 as of December 31, 2025. Principal and interest paid from net revenue available for debt service totaled \$0 and \$58,117, respectively.

**BRainerd PUBLIC UTILITIES
BRainerd, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

General Obligation Bonds, Series 2025A

The resolutions authorizing the issuance of general obligation 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, 2025 was \$131,250. The interest payments are made semi-annually on February 1 and August 1, and principal payments on February 1. Net revenue available for debt service was \$1,770,283 as of December 31, 2025. Principal and interest paid from net revenue available for debt service totaled \$0 and \$8,650, respectively.

Long-term bonds and notes debt consists of the following as of December 31, 2025 and 2024:

Description of Issue	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding	
					2025	2024
Direct Borrowings - G.O. Build America Bonds, Series 2009	3.233%	6/24/2009	8/20/2028	\$ 25,966,788	\$ 5,233,000	\$ 6,870,000
Electric Utility Revenue Bonds, Series 2014A	2.0 - 4.0%	10/9/2014	12/1/2029	6,070,000	1,875,000	2,305,000
G.O. Water Utility Revenue Bonds, Series 2015A	2.0 - 4.0%	12/15/2014	2/1/2025	1,700,000	-	185,000
G.O. Utility Revenue Bonds, Series 2016A						
Water	1.625 - 5.0%	7/20/2016	10/1/2031	4,845,000	2,285,000	2,635,000
Sewer	1.625 - 5.0%	7/20/2016	10/1/2031	1,162,800	548,400	632,400
Electric Utility Revenue and Refunding Bonds, Series 2017A	2.25%	10/18/2017	12/1/2027	6,035,000	1,435,000	2,125,000
G.O. Utility Revenue Bonds (Water), Series 2018A	3.0 - 5.0%	3/22/2018	2/1/2028	2,720,000	920,000	1,210,000
G.O. Bonds Series 2021A	1.1 - 5.0%	9/20/2021	2/1/2037	5,250,000	4,480,000	4,755,000
G.O. Bonds Series 2023A						
Water	4.125 - 5.0%	11/16/2023	2/1/2039	1,100,000	1,060,000	1,100,000
Sewer	4.125 - 5.0%	11/16/2023	2/1/2039	1,855,000	1,785,000	1,855,000
G.O. Bonds Series 2024A						
Water	4.00 - 5.00%	12/18/2024	2/1/2035	1,225,000	1,225,000	1,225,000
Improvement	4.00 - 5.00%	12/18/2024	2/1/2035			
G.O. Bonds Series 2025A						
Water	4.125 - 5.0%	11/16/2023	2/1/2039	1,725,000	1,725,000	-
Total Long-Term Liabilities				<u>\$ 59,654,588</u>	22,571,400	24,897,400
Less Amount Due Within One Year						
Direct Borrowings - G.O. Build America Bonds					1,689,000	1,637,000
Electric Utility Revenue Bonds, Series 2014A					445,000	430,000
Water Utility Revenue Bonds, Series 2015A					-	185,000
G.O. Utility Revenue Bonds (Water), Series 2016A					365,000	350,000
G.O. Utility Revenue Bonds (Sewer), Series 2016A					87,600	84,000
Electric Utility Revenue and Refunding Bonds, Series 2017A					710,000	690,000
G.O. Utility Revenue Bonds (Water), Series 2018A					300,000	290,000
G.O. Bonds, Series 2021A					275,000	275,000
G.O. Bonds (Sewer), Series 2023A					90,000	70,000
G.O. Bonds (Water), Series 2023A					55,000	40,000
G.O. Bonds (Water), Series 2024A					90,000	-
Net Long-Term Liabilities					<u>\$ 18,464,800</u>	<u>\$ 20,846,400</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 6 LONG-TERM LIABILITIES (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>Direct Borrowings - General Obligation Build America Bonds</u>			
2026	\$ 1,689,000	\$ 169,183	\$ 1,858,183
2027	1,744,000	114,578	1,858,578
2028	<u>1,800,000</u>	<u>58,194</u>	<u>1,858,194</u>
Total	<u>\$ 5,233,000</u>	<u>\$ 341,955</u>	<u>\$ 5,574,955</u>
<u>Electric Utility Revenue Bonds, Series 2014A</u>			
2026	\$ 445,000	\$ 67,545	\$ 512,545
2027	460,000	53,750	513,750
2028	475,000	38,800	513,800
2029	<u>495,000</u>	<u>19,800</u>	<u>514,800</u>
Total	<u>\$ 1,875,000</u>	<u>\$ 179,895</u>	<u>\$ 2,054,895</u>
<u>G.O. Utility Revenue Bonds, Series 2016A (Water Portion)</u>			
2026	\$ 365,000	\$ 44,694	\$ 409,694
2027	370,000	38,762	408,762
2028	375,000	32,288	407,288
2029	385,000	24,788	409,788
2030	390,000	17,088	407,088
2031	<u>400,000</u>	<u>8,800</u>	<u>408,800</u>
Total	<u>\$ 2,285,000</u>	<u>\$ 166,420</u>	<u>\$ 2,451,420</u>
<u>G.O. Utility Revenue Bonds, Series 2016A (Wastewater Portion)</u>			
2026	\$ 87,600	\$ 10,727	\$ 98,327
2027	88,800	9,302	98,102
2028	90,000	7,749	97,749
2029	92,400	5,949	98,349
2029	93,600	4,101	97,701
2031	<u>96,000</u>	<u>2,112</u>	<u>98,112</u>
Total	<u>\$ 548,400</u>	<u>\$ 39,940</u>	<u>\$ 588,340</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
<u>Electric Utility Revenue and Refunding Bonds, Series 2017A</u>			
2026	\$ 710,000	\$ 32,288	\$ 742,288
2027	725,000	16,313	741,313
Total	<u>\$ 1,435,000</u>	<u>\$ 48,601</u>	<u>\$ 1,483,601</u>
<u>G.O. Water Utility Revenue Bonds, Series 2018A</u>			
2026	\$ 300,000	\$ 23,100	\$ 323,100
2027	305,000	14,025	319,025
2028	315,000	4,725	319,725
Total	<u>\$ 920,000</u>	<u>\$ 41,850</u>	<u>\$ 961,850</u>
<u>G.O. Bonds, Series 2021A</u>			
2026	\$ 275,000	\$ 123,795	\$ 398,795
2027	280,000	109,920	389,920
2028	280,000	95,920	375,920
2029	355,000	80,045	435,045
2030	375,000	61,795	436,795
2031-2035	2,045,000	168,590	2,213,590
2036-2037	870,000	17,500	887,500
Total	<u>\$ 4,480,000</u>	<u>\$ 657,565</u>	<u>\$ 5,137,565</u>
<u>G.O. Improvement Bonds, Series 2023A (Water Portion)</u>			
2026	\$ 55,000	\$ 48,700	\$ 103,700
2027	55,000	45,950	100,950
2028	60,000	43,075	103,075
2029	65,000	39,950	104,950
2030	65,000	36,700	101,700
2031-2035	385,000	129,000	514,000
2036-2039	375,000	32,563	407,563
Total	<u>\$ 1,060,000</u>	<u>\$ 375,938</u>	<u>\$ 1,435,938</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
G.O. Improvement Bonds, Series 2023A (Wastewater Portion)			
2026	\$ 90,000	\$ 82,050	\$ 172,050
2027	95,000	77,425	172,425
2028	100,000	72,550	172,550
2029	105,000	67,425	172,425
2030	110,000	62,050	172,050
2031-2035	650,000	218,750	868,750
2036-2039	635,000	55,263	690,263
Total	<u>\$ 1,785,000</u>	<u>\$ 635,513</u>	<u>\$ 2,420,513</u>
G.O. Improvement Bonds, Series 2024A (Water Portion)			
2026	\$ 90,000	\$ 56,050	\$ 146,050
2027	105,000	51,175	156,175
2028	110,000	45,800	155,800
2029	115,000	40,175	155,175
2030	120,000	34,300	154,300
2030-2035	685,000	77,050	762,050
Total	<u>\$ 1,225,000</u>	<u>\$ 304,550</u>	<u>\$ 1,529,550</u>
G.O. Improvement Bonds, Series 2025A (Water Portion)			
2026	\$ -	\$ 53,586	\$ 53,586
2027	40,000	75,856	115,856
2028	55,000	73,481	128,481
2029	60,000	70,606	130,606
2030	65,000	67,481	132,481
2031 - 2035	360,000	286,031	646,031
2036 - 2040	460,000	187,706	647,706
2041 - 2045	560,000	83,856	643,856
2046	125,000	2,578	127,578
Total	<u>\$ 1,725,000</u>	<u>\$ 901,181</u>	<u>\$ 2,626,181</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

Year Ending December 31,	Principal	Interest Lease Liability	Total
2026	\$ 28,604	\$ 15,665	\$ 44,269
2027	24,508	14,970	39,478
2028	25,001	14,330	39,331
2029	25,430	13,645	39,075
2030	15,060	13,057	28,117
2031 - 2035	36,508	61,367	97,875
2036 - 2040	56,643	52,482	109,125
2041 - 2045	81,032	39,343	120,375
2046 - 2050	110,574	21,051	131,625
2051 - 2055	52,500	1,952	54,452
Total	<u>\$ 455,860</u>	<u>\$ 247,862</u>	<u>\$ 703,722</u>

Long-term liability activity for the year ended December 31, 2025, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Direct Borrowings -				
G.O. Build America Bonds	\$ 6,870,000	\$ -	\$ 1,637,000	\$ 5,233,000
Electric Utility Revenue				
Bonds, Series 2014A	2,305,000	-	430,000	1,875,000
G.O. Water Utility Revenue				
Bonds, Series 2015A	185,000	-	185,000	-
G.O. Utility Revenue				
Bonds, Series 2016A	3,267,400	-	434,000	2,833,400
Electric Utility Revenue				
and Refunding Bonds,				
Series 2017A	2,125,000	-	690,000	1,435,000
G.O. Utility Revenue				
Bonds, Series 2018A	1,210,000	-	290,000	920,000
G.O. Bonds, Series 2021A	4,755,000	-	275,000	4,480,000
G.O. Improvement Bonds,				
Series 2023A	2,955,000	-	110,000	2,845,000
G.O. Improvement Bonds,				
Series 2024A	1,225,000	-	-	1,225,000
G.O. Improvement Bonds,				
Series 2025A	-	1,725,000	-	1,725,000
Revenue Bond Premium				
Series 2014A	33,889	-	10,472	23,417
Series 2015A	825	-	825	-
Series 2016A	106,833	-	29,064	77,769
Series 2018A	28,188	-	12,371	15,817
Series 2021A	407,565	-	70,504	337,061
Series 2023A	119,922	-	13,852	106,070
Series 2024A	101,710	-	10,782	90,928
Series 2025A	-	96,887	-	96,887
Lease Liability	395,687	88,892	28,719	455,860
Compensated Absences	*	531,055	35,849	566,904
Total	<u>\$ 26,623,074</u>	<u>\$ 1,946,628</u>	<u>\$ 4,227,589</u>	<u>\$ 24,342,113</u>

* Compensated Absences are presented net of change

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the year ended December 31, 2024, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Direct Borrowings -				
G.O. Build America Bonds	\$ 8,455,000	\$ -	\$ 1,585,000	\$ 6,870,000
Electric Utility Revenue				
Bonds, Series 2014A	2,720,000	-	415,000	2,305,000
G.O. Water Utility Revenue				
Bonds, Series 2015A	365,000	-	180,000	185,000
G.O. Utility Revenue				
Bonds, Series 2016A	3,676,600	-	409,200	3,267,400
Electric Utility Revenue and Refunding Bonds, Series 2017A	2,820,000	-	695,000	2,125,000
G.O. Utility Revenue				
Bonds, Series 2018A	1,490,000	-	280,000	1,210,000
G.O. Bonds, Series 2021A	5,025,000	-	270,000	4,755,000
G.O. Improvement Bonds, Series 2023A	2,955,000	-	-	2,955,000
G.O. Improvement Bonds, Series 2024A	-	1,225,000	-	1,225,000
Revenue Bond Premium				
Series 2014A	45,981	-	12,092	33,889
Series 2015A	3,189	-	2,364	825
Series 2016A	143,607	-	36,774	106,833
Series 2018A	44,553	-	16,365	28,188
Series 2021A	485,053	-	77,488	407,565
Series 2023A	130,481	-	10,559	119,922
Series 2024A	-	101,710	-	101,710
Lease Liability	416,272	14,157	34,742	395,687
Compensated Absences	* 1,071,960	-	540,905	531,055
	<u>\$ 29,847,696</u>	<u>\$ 1,340,867</u>	<u>\$ 4,565,489</u>	<u>\$ 26,623,074</u>

* Compensated Absences are presented net of change

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 7 LEASE LIABILITY

In 2019, BPU entered into a sixty-month agreement for financing a billing inserter and a mailroom copier with payments due monthly with a discount rate of 2.23%. In 2020, BPU entered into a sixty-month agreement for financing a copier with payments due monthly with a discount rate of 1.87%. In 2022, BPU entered into a sixty-month agreement for financing a copier with payments due monthly with a discount rate of 1.87%. In 2022, BPU entered into a second sixty-month agreement for financing a meter machine with payments due quarterly with a discount rate of 2.44%. In 2022, BPU entered into a third agreement for 30 years for financing solar energy ground with payments due quarterly with a discount rate of 3.4%. In 2024, BPU entered into a sixty-month agreement for financing a copier with payments due monthly with a discount rate of 3.33%. In 2025, BPU entered into a sixty-month agreement for financing a copier with payments due monthly with a discount rate of 2.28%. In 2025, BPU entered into a sixty-month agreement, paid quarterly for a billing inserter, with a discount rate of 2.28%.

The right-to-use lease assets and the related accumulated amortization are detailed in Note 2.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 8 SEGMENT INFORMATION

BPU has issued revenue bonds for each of the following departments: Electric, the plant provides electricity to users; Water, which operates the water distribution system; and Wastewater, which operates the sewer collection system. Summary financial information for each of these departments for fiscal years ended December 31, 2025 and 2024, is presented below:

	2025		
	Electric	Water	Wastewater Treatment
Condensed Statement of Net Position			
Assets:			
Net Capital Assets	\$ 24,730,897	\$ 24,933,089	\$ 20,294,303
Restricted Assets	2,638,428	2,338,793	4,242,803
Current Assets	10,166,513	(1,797,082)	6,890,679
Other Assets	128,083	-	-
Total Assets	<u>37,663,921</u>	<u>25,474,800</u>	<u>31,427,785</u>
Deferred Outflows of Resources	<u>263,718</u>	<u>87,906</u>	<u>87,906</u>
Liabilities:			
Current Liabilities	4,975,546	2,184,470	2,582,636
Long-Term Liabilities	4,063,183	11,761,358	6,286,764
Total Liabilities	<u>9,038,729</u>	<u>13,945,828</u>	<u>8,869,400</u>
Net Position:			
Net Investment in Capital Assets	21,312,108	12,576,962	12,625,010
Restricted Net Position	-	2,117,014	3,592,546
Unrestricted Net Position	6,628,571	(3,393,176)	6,112,657
Total Net Position	<u>27,940,679</u>	<u>11,300,800</u>	<u>22,330,213</u>
Deferred Inflows of Resources	948,231	316,078	316,078
Condensed Statement of Revenues, Expenses, and Changes in Net Position			
Operating Revenues (Expenses):			
Charges (Pledged Against Bonds)	27,033,167	3,912,193	3,455,558
Depreciation and Amortization Expense	(2,452,122)	(1,307,478)	(1,823,877)
Other Operating Expenses	(24,559,949)	(2,478,303)	(2,113,804)
Other Operating Revenues	1,053,642	203,918	48,439
Operating Income (Loss)	<u>1,074,738</u>	<u>330,330</u>	<u>(433,684)</u>
Nonoperating Revenues (Expenses):			
Interest Income	37,129	12,023	502,442
Other Revenue	32,938	353,822	1,722,452
Interest Expense	(115,495)	(202,854)	(285,460)
Change in Net Position	<u>254,452</u>	<u>493,321</u>	<u>1,505,750</u>
Beginning Net Position	<u>27,686,227</u>	<u>10,807,479</u>	<u>20,824,463</u>
Ending Net Position	<u>27,940,679</u>	<u>11,300,800</u>	<u>22,330,213</u>
Condensed Statement of Cash Flows			
Net Cash Provided (Used) by:			
Operating Activities	4,204,470	1,445,155	1,457,506
Noncapital Financing Activities	(620,619)	388,000	209,792
Capital and Related Financing Activities	(3,103,237)	(1,674,584)	(1,588,705)
Investing Activities	182,977	(178,102)	185,842
Net Increase (Decrease)	<u>663,590</u>	<u>(19,531)</u>	<u>264,435</u>
Beginning Cash and Cash Equivalents	<u>1,855,999</u>	<u>(185,869)</u>	<u>2,679,078</u>
Ending Cash and Cash Equivalents	<u>2,519,590</u>	<u>(205,400)</u>	<u>2,943,513</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 8 SEGMENT INFORMATION (CONTINUED)

	2024		
	Electric	Water	Wastewater Treatment
Condensed Statement of Net Position			
Assets:			
Net Capital Assets	\$ 25,233,731	\$ 23,732,038	\$ 20,911,795
Restricted Assets	2,366,725	1,469,252	4,702,183
Current Assets	10,182,931	(1,359,869)	6,643,185
Other Assets	176,083	-	-
Total Assets	<u>37,959,470</u>	<u>23,841,421</u>	<u>32,257,163</u>
Deferred Outflows of Resources	<u>287,943</u>	<u>95,980</u>	<u>95,980</u>
Liabilities:			
Current Liabilities	4,821,466	1,479,979	2,303,604
Long-Term Liabilities	<u>5,354,456</u>	<u>11,203,566</u>	<u>8,216,303</u>
Total Liabilities	<u>10,175,922</u>	<u>12,683,545</u>	<u>10,519,907</u>
Net Position:			
Net Investment in Capital Assets	20,833,087	11,950,210	11,470,351
Restricted Net Position	-	1,967,636	4,303,092
Unrestricted Net Position	<u>6,134,154</u>	<u>(3,032,072)</u>	<u>5,691,711</u>
Total Net Position	<u>26,967,241</u>	<u>10,885,774</u>	<u>21,465,154</u>
Deferred Inflows of Resources	1,104,250	368,082	368,082
Condensed Statement of Revenues, Expenses, and Changes in Net Position			
Operating Revenues (Expenses):			
Charges (Pledged Against Bonds)	26,775,533	3,406,981	3,350,208
Depreciation and Amortization Expense	(2,390,907)	(1,333,639)	(1,694,652)
Other Operating Expenses	(23,867,246)	(2,539,191)	(1,873,384)
Other Operating Revenues	<u>574,568</u>	<u>293,498</u>	<u>86,807</u>
Operating Income (Loss)	<u>1,091,948</u>	<u>(172,351)</u>	<u>(131,021)</u>
Nonoperating Revenues (Expenses):			
Interest Income	137,805	32,008	503,386
Other Revenue	77,600	386,379	1,628,121
Interest Expense	(141,168)	(177,579)	(345,125)
Other Expenses	-	-	-
Change in Net Position	<u>401,035</u>	<u>68,457</u>	<u>1,655,361</u>
Beginning Net Position	<u>26,566,206</u>	<u>10,817,317</u>	<u>19,809,793</u>
Ending Net Position	<u>26,967,241</u>	<u>10,885,774</u>	<u>21,465,154</u>
Condensed Statement of Cash Flows			
Net Cash Provided (Used) by:			
Operating Activities	3,011,167	935,345	1,310,117
Noncapital Financing Activities	(678,481)	83,663	367,310
Capital and Related Financing Activities	(3,634,079)	(2,073,491)	(1,270,545)
Investing Activities	<u>1,279,189</u>	<u>692,204</u>	<u>(197,706)</u>
Net Increase (Decrease)	<u>(22,204)</u>	<u>(362,279)</u>	<u>209,176</u>
Beginning Cash and Cash Equivalents	<u>1,878,203</u>	<u>176,410</u>	<u>2,469,902</u>
Ending Cash and Cash Equivalents	<u>1,855,999</u>	<u>(185,869)</u>	<u>2,679,078</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 9 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 10 DEFINED BENEFIT PENSION PLANS

General Employees Retirement Plan Description

The BPU participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

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. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

General Employees Plan Benefits Provided (Continued)

General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. The 2025 annual increase was 1.25%. 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. 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 prorated increase.

General Employees Fund Contributions

Minnesota Statutes chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Plan members were required to contribute 6.50% of their annual covered salary in fiscal years 2025 and 2024 and BPU was required to contribute 7.50% for Coordinated Plan members. BPU's contributions to the General Employees Fund for the years ended December 31, 2025 and 2024, were \$358,545 and \$346,787, respectively. BPU's contributions were equal to the required contributions as set by state statute.

General Employees Fund Pension Costs

At December 31, 2025 and 2024, BPU reported a liability of \$1,738,521 and \$2,068,564, respectively, for its proportionate share of the General Employees Fund's net pension liability. BPU's 2025 and 2024 net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2025 and 2024. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

General Employees Fund Pension Costs (Continued)

proportionate share of the net pension liability associated with BPU totaled \$41,939 at December 31, 2025 for a total liability of \$1,780,460 and \$53,489 at December 31, 2024 for a total liability of \$2,122,053.

The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. BPU's proportion of the net pension liability was based on the BPU's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2024 through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. BPU's proportionate share was 0.0525% at the end of the measurement period and 0.0560% for the beginning of the period.

The net pension liability was measured as of June 30, 2024 for December 31, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. BPU's proportionate share of the net pension liability for December 31, 2024, was based on BPU's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2024, the proportionate share was 0.0560% at the end of the measurement period and 0.0609% for the beginning of the period.

For the years ended December 31, 2025 and 2024, BPU recognized pension expense of (\$184,108) and \$155,546 for its proportionate share of the General Employees Plan's pension expense. In addition, BPU recognized an additional (\$6,433) in 2025 and \$663 in 2024 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, 2025 and 2024.

At December 31, 2025, 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	\$ 165,643	\$ -
Changes in Actuarial Assumptions	41,888	400,028
Net difference Between Projected and Actual Investment Earnings	-	691,774
Changes in Proportion	-	327,051
Contributions Paid to PERA Subsequent to the Measurement Date	172,913	-
Total	<u>\$ 380,444</u>	<u>\$ 1,418,853</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

General Employees Fund Pension Costs (Continued)

The \$172,913 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, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amounts
2026	\$ (343,142)
2027	(455,641)
2028	(288,962)
2029	(123,577)

At December 31, 2024, 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	\$ 194,499	\$ -
Changes in Actuarial Assumptions	10,099	782,916
Net difference Between Projected and Actual Investment Earnings	-	600,694
Changes in Proportion	29,192	272,367
Contributions Paid to PERA Subsequent to the Measurement Date	168,947	-
Total	\$ 402,737	\$ 1,655,977

The total pension expense (revenue) recognized by BPU for the year ended December 31, 2025 was (\$190,541). The total pension expense (revenue) recognized by BPU for the year ended December 31, 2024 was \$156,209.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Long-Term Expected Return on Investments

The State Board of Investments, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 estimated estimates of geometric real rates of return for each major asset class for the years ended December 31, 2025 and 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Private Markets	25.0%	5.90%
Fixed Income	25.0%	0.75%
Totals	<u>100.0%</u>	

Actuarial Methods and Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.50% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5% after one year of service to 3% after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation. The assumption changes were adopted by the board and became effective with the July 1, 2025 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2025:

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

The total pension liability in the June 30, 2024 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

The following changes in actuarial assumptions and plan provisions occurred in 2024:

Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions:

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

Discount Rate

The discount rate used to measure the total pension liability in 2025 and 2024 was 7.0%. 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, 2025 AND 2024**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Pension Liability Sensitivity

The following presents BPU's proportionate share of the net pension liability at December 31, 2025 and 2024 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, 2025		
	1% Lower	Current Discount Rate	1% Higher
General Employees Fund Discount Rate	6.00%	7.00%	8.00%
BPU's Proportionate Share of the General Employees Fund Net Pension Liability	\$ 4,222,595	\$ 1,738,521	\$ (276,622)

Description	December 31, 2024		
	1% Lower	Current Discount Rate	1% Higher
General Employees Fund Discount Rate	6.00%	7.00%	8.00%
BPU's Proportionate Share of the General Employees Fund Net Pension Liability	\$ 4,518,075	\$ 2,068,564	\$ 53,616

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 11 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 46 active employees 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. Cost-sharing allocation of insurance coverage is 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 years 2025 and 2024, BPU contributed \$5,925 and \$16,928, respectively, to the plan.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

BPU's OPEB liability was measured as of January 1, 2025, and the total OPEB liability was determined by an actuarial valuation as of January 1, 2024. Liabilities in this report were calculated as of the valuation date and rolled forward to the measurement date using standard actuarial roll forward techniques. The total OPEB liability was determined by an actuarial valuation as of January 1, 2024, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Assumptions	
Inflation	2.50%
Salary Increase	Services Graded Table
Health Care Trend Rates	6.25% Decreasing to 5.00% then 4.00% Over 6 Yrs.

Mortality Rates were based on the Pub-2010 public retirement plans headcount-weighted mortality tables (general, safety) with MP-2021 generational improvement scale.

The actuarial assumptions used in the January 1, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2023 to December 31, 2023.

The discount rate used to measure the total OPEB liability was 4.2%. 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 3.70% to 4.20%.

Changes in Net OPEB Liability

	Total OPEB Liability	
	2025	2024
Balance at January 1,	\$ 332,217	\$ 366,208
Changes for the Year:		
Service Cost	23,597	24,860
Interest	13,057	15,307
Assumption Changes	(11,355)	(29,973)
Difference Between Expected and Actual	-	(27,257)
Benefit Payments	(5,925)	(16,928)
Net Change in Total OPEB Liability	19,374	(33,991)
Balance at December 31,	\$ 351,591	\$ 332,217

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 11 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 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>2025</u>	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Description	3.2%	4.2%	5.2%
Net OPEB Liability	\$ 378,895	\$ 351,591	\$ 326,083
<u>2024</u>	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Description	2.7%	3.7%	4.7%
Net OPEB Liability	\$ 294,194	\$ 332,217	\$ 377,710

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 or 1% higher than the current health care cost trend rates:

<u>2025</u>	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
Medical Trend Rate	(5.25% Decreasing to 4.0% then 3.0%)	Rates (6.25% Decreasing to 5.0% then 4.0%)	(7.25% Decreasing to 6.0% then 5.0%)
Net OPEB Liability	\$ 310,834	\$ 351,591	\$ 400,451
<u>2024</u>	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
Medical Trend Rate	(5.5% Decreasing to 3.0%)	Rates (6.5% Decreasing to 5.0% then 4.0%)	(7.5% Decreasing to 6.0% then 5.0%)
Net OPEB Liability	\$ 294,194	\$ 332,217	\$ 377,710

For the years ended December 31, 2025 and 2024, BPU recognized OPEB expense of \$25,287 and \$30,055, respectively. At December 31, 2025, BPU reported deferred inflows of resources and deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
	<u>of Resources</u>	<u>of Resources</u>
Authority's Benefit Payments Subsequent to the Measurement Date	\$ 10,715	\$ -
Difference Between Expected and Actual Experience	38,194	91,288
Changes in Actuarial Assumptions	10,177	70,246
Total	<u>\$ 59,086</u>	<u>\$ 161,534</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in Net OPEB Liability (Continued)

The \$10,715 reported as deferred outflows of resources related to pensions resulting from benefit payments subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. 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
2026	\$ (19,857)
2027	(19,858)
2028	(22,507)
2029	(25,002)
2030	(11,716)
Thereafter	(14,223)

At December 31, 2024, BPU reported deferred inflows of resources and deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Authority's Benefit Payments Subsequent to the Measurement Date	\$ 5,924	\$ -
Difference Between Expected and Actual Experience	57,292	111,863
Changes in Actuarial Assumptions	13,950	72,574
Total	\$ 77,166	\$ 184,437

NOTE 12 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 \$0.0045 per kWh based on energy sales to retail electric customers in the previous month. The monthly cash contribution to the City for medium and large industrial customers (crypto mining customers) will be equal to \$0.00025 per kWh. Starting in 2026, the Council approved the amount due to be based on a percentage of revenues. This was approved at the December 2025 meeting.

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 12 OPERATING TRANSFERS TO THE CITY OF BRAINERD (CONTINUED)

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

NOTE 13 COMMITMENTS

Power Contracts

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 14 SUBSEQUENT EVENT

On May 18, 2026, the City of Brainerd issued \$13,035,000 General Obligation Bonds, Series 2026A, of which, \$4,985,000 is BPU's portion of the debt. Interest rate ranges from 4.25% to 5.00%.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF BPU'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN MEASUREMENT PERIODS**

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
2025	0.0525%	\$ 1,738,521	\$ 41,939	\$ 1,780,460	\$ 4,751,345	36.59%	90.78%
2024	0.0560%	2,068,564	53,489	2,122,053	4,735,645	43.68%	89.08%
2023	0.0609%	3,405,460	93,909	3,499,369	4,843,449	70.31%	83.10%
2022	0.0622%	4,926,260	144,370	5,070,630	4,659,511	105.72%	76.70%
2021	0.0601%	2,566,540	78,459	2,644,999	4,329,687	59.28%	87.00%
2020	0.0574%	3,441,391	105,995	3,547,386	4,090,962	84.12%	79.06%
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%

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF PERA CONTRIBUTIONS
LAST TEN FISCAL YEARS**

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)
2025	\$ 358,545	\$ 358,545	\$ -	\$ 4,780,596	7.50%
2024	346,787	346,787	-	4,623,827	7.50%
2023	359,946	359,946	-	4,799,280	7.50%
2022	361,230	361,230	-	4,816,400	7.50%
2021	334,675	334,675	-	4,462,333	7.50%
2020	313,075	313,075	-	4,174,333	7.50%
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%

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF CHANGES IN BPU'S OPEB LIABILITY, RELATED RATIOS, AND NOTES
LAST TEN MEASUREMENT PERIODS**

	Measurement Date							
	December 31, 2025	December 31, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
Total OPEB Liability								
Service Cost	\$ 23,597	\$ 24,860	\$ 26,085	\$ 34,331	\$ 39,670	\$ 33,722	\$ 22,563	\$ 23,674
Interest	13,057	15,307	8,131	11,153	15,469	13,537	11,642	12,031
Assumption Changes	(11,355)	(29,973)	(44,384)	(18,204)	21,049	9,122	(8,905)	-
Difference Between Expected and Actual Experience	-	(27,257)	-	(140,216)	-	152,787	-	-
Benefit Payments	(5,925)	(16,928)	(8,118)	(51,536)	(41,654)	(34,175)	(31,901)	(60,631)
Net Change in Total OPEB Liability	19,374	(33,991)	(18,286)	(164,472)	34,534	174,993	(6,601)	(24,926)
Total OPEB - Beginning of the Year	332,217	366,208	384,494	548,966	514,432	339,439	346,040	370,966
Total OPEB - End of the Year	<u>\$ 351,591</u>	<u>\$ 332,217</u>	<u>\$ 366,208</u>	<u>\$ 384,494</u>	<u>\$ 548,966</u>	<u>\$ 514,432</u>	<u>\$ 339,439</u>	<u>\$ 346,040</u>
Covered-Employee Payroll	\$ 4,178,564	\$ 4,056,858	\$ 4,571,346	\$ 4,438,200	\$ 3,947,822	\$ 3,823,556	\$ 3,409,972	\$ 3,310,652
BPU's OPEB Liability as a Percentage of Covered-Employee Payroll	8%	8%	8%	9%	14%	13%	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, 2025**

**NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, 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:

2025

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024

Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions:

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

2023

Changes in Actuarial Assumptions

- The discount rate was changed from 6.50% to 7.00%.

Changes in Plan Provisions

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2025**

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

2023 (Continued)

Changes in Plan Provisions (Continued)

- The vesting period for those hired after June 30, 2010 was changed from five years from allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024 was eliminated.
- A one-time, non-compounding benefit increase of 2.5% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2021

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2025**

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

2020 (Continued)

Changes in Actuarial Assumptions (Continued)

- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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.

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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2025**

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

2018 (Continued)

Changes in Plan Provisions (Continued)

- 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.

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.

NOTE 2 CHANGES IN SIGNIFICANT OTHER POSTEMPLOYMENT BENEFITS PLAN PROVISION, ACTUARIAL METHODS, AND ASSUMPTIONS

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.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2025**

**NOTE 2 CHANGES IN SIGNIFICANT OTHER POSTEMPLOYMENT BENEFITS PLAN
PROVISION, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)**

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:

2025

Assumption Changes:

- The discount rate was changed from 3.70% to 4.20%.

2024

Assumption Changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The percentage of future retirees assumed to continue on one of the City's medical plans post-employment was reduced from 40% to 35%.
- The discount rate was changed from 4.00% to 3.70%.

2023

- The discount rate was changed from 2.00% to 4.00%.
- The inflation rate was changed from 2.00% to 2.50%.

2022

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the Pub-2019 public retirement plans headcount-weighted mortality tables (general, safety) with MP-2019 generational improvement scale to the Pub-2019 public retirement plans headcount-weighted mortality tables (general, safety) with MP-2021 generational improvement scale.
- The salary increase rates were updated to reflect the latest experience study.
- The retirement and withdrawal rates were updated to reflect the latest experience study.
- The inflation rate was changed from 2.50% to 2.00%.

2021

- The discount rate was changed from 2.90% to 2.00%.

2020

- The health care trend rates, mortality tables, and salary increase rates were updated.
- The discount rate was changed from 3.80% to 2.90%.

2019

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2025**

**NOTE 2 CHANGES IN SIGNIFICANT OTHER POSTEMPLOYMENT BENEFITS PLAN
PROVISION, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)**

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%.

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF NET POSITION BY DEPARTMENT
DECEMBER 31, 2025
(WITH SUMMARIZED TOTALS FOR DECEMBER 31, 2024)**

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2025	2024
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
CAPITAL ASSETS					
Construction in Progress	\$ 1,047,847	\$ 2,364,956	\$ 673,964	\$ 4,086,767	\$ 2,797,211
In Service	53,878,364	40,741,904	44,192,972	138,813,240	134,711,896
Total Investment in Capital Assets	54,926,211	43,106,860	44,866,936	142,900,007	137,509,107
Less: Accumulated Depreciation/Amortization	(30,195,314)	(18,173,771)	(24,572,633)	(72,941,718)	(67,631,543)
Net Capital Assets	24,730,897	24,933,089	20,294,303	69,958,289	69,877,564
RESTRICTED ASSETS					
Cash and Investments					
Customer Deposits	655,075	-	-	655,075	595,816
City of Brainerd Contribution	251,984	807,144	331,057	1,390,185	346,262
Conservation Incentive Program	614,119	-	-	614,119	569,589
Debt Service Reserve	1,117,250	1,531,649	2,138,864	4,787,763	4,706,051
Total Restricted Cash and Investments	2,638,428	2,338,793	2,469,921	7,447,142	6,217,718
Bonds and Notes Receivable	-	-	1,744,334	1,744,334	2,290,000
Notes Receivable - Interest	-	-	28,548	28,548	30,442
Total Restricted Assets	2,638,428	2,338,793	4,242,803	9,220,024	8,538,160
CURRENT ASSETS					
Cash and Investments	4,160,591	(2,893,058)	5,473,038	6,740,571	6,775,722
Accounts Receivable	3,241,046	554,366	913,994	4,709,406	5,579,983
Interest Receivable	19,137	524	16,692	36,353	27,529
Due from the City of Brainerd	30,971	291,577	444,346	766,894	2,265
Supplies	1,997,581	198,942	-	2,196,523	2,227,315
Prepaid Expenses	717,187	50,567	42,609	810,363	853,433
Total Current Assets	10,166,513	(1,797,082)	6,890,679	15,260,110	15,466,247
OTHER ASSETS					
Service Territory Acquisitions, Net of Accumulated Depreciation					
	128,083	-	-	128,083	176,083
Total Assets	37,663,921	25,474,800	31,427,785	94,566,506	94,058,054
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related	228,266	76,089	76,089	380,444	402,737
OPEB Related	35,452	11,817	11,817	59,086	77,166
Total Deferred Outflows of Resources	263,718	87,906	87,906	439,530	479,903
Total Assets and Deferred Outflows of Resources	\$ 37,927,639	\$ 25,562,706	\$ 31,515,691	\$ 95,006,036	\$ 94,537,957

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF NET POSITION BY DEPARTMENT (CONTINUED)
DECEMBER 31, 2025
(WITH SUMMARIZED TOTALS FOR DECEMBER 31, 2024)**

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2025	2024
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES					
NET POSITION					
Net Investment in Capital Assets	\$ 21,312,108	\$ 12,576,962	\$ 12,625,010	\$ 46,514,080	\$ 44,374,414
Restricted for Debt Service	-	1,450,990	3,592,546	5,043,536	5,649,704
Restricted for Capital Outlay	-	666,024	-	666,024	621,024
Unrestricted	6,628,571	(3,393,176)	6,112,657	9,348,052	8,673,027
Total Net Position	27,940,679	11,300,800	22,330,213	61,571,692	59,318,169
LONG-TERM LIABILITIES					
Bonds Payable, Less Current Portion	2,178,417	11,251,383	5,782,949	19,212,749	21,645,332
Lease Liability	398,268	14,494	14,494	427,256	378,081
Compensated Absences	238,860	79,602	73,442	391,904	356,055
Net Pension Liability	1,043,113	347,704	347,704	1,738,521	2,068,564
Other Postemployment Benefit Obligation	204,525	68,175	68,175	340,875	326,293
Total Long-Term Liabilities	4,063,183	11,761,358	6,286,764	22,111,305	24,774,325
CURRENT LIABILITIES					
Accounts and Contracts Payable	1,871,901	65,932	111,558	2,049,391	1,956,010
Bonds Payable	1,155,000	1,085,000	1,866,600	4,106,600	4,051,000
Lease Liability	18,104	5,250	5,250	28,604	17,606
Compensated Absences	103,250	35,000	36,750	175,000	175,000
Other Postemployment Benefit Obligation	6,430	2,143	2,143	10,716	5,924
Accrued Expenses					
Salaries and Withholding Taxes	170,341	166,840	113,701	450,882	431,818
Sales Taxes	104,539	3,573	-	108,112	222,041
Current Liabilities from Restricted Assets:					
Bond Interest	9,772	121,605	95,520	226,897	233,983
Payable to City of Brainerd	267,015	699,127	351,114	1,317,256	346,262
Conservation Incentive Program Payable	614,119	-	-	614,119	569,589
Customer Deposits	655,075	-	-	655,075	595,816
Total Current Liabilities	4,975,546	2,184,470	2,582,636	9,742,652	8,605,049
Total Liabilities	9,038,729	13,945,828	8,869,400	31,853,957	33,379,374
DEFERRED INFLOWS OF RESOURCES					
Pension Related	851,311	283,771	283,771	1,418,853	1,655,977
OPEB Related	96,920	32,307	32,307	161,534	184,437
Total Deferred Outflows of Resources	948,231	316,078	316,078	1,580,387	1,840,414
Total Net Position, Liabilities and Deferred Inflows of Resources	\$ 37,927,639	\$ 25,562,706	\$ 31,515,691	\$ 95,006,036	\$ 94,537,957

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2025
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2024)**

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2025	2024
OPERATING REVENUES					
Utility Revenues					
Residential	\$ 6,776,603	\$ 1,956,778	\$ 1,617,771	\$ 10,351,152	\$ 9,510,829
Commercial	10,621,658	1,813,918	1,823,368	14,258,944	13,470,090
Large Commercial	9,275,481	-	-	9,275,481	10,066,242
City of Brainerd	359,425	141,497	14,419	515,341	485,561
Total Utility Revenues	<u>27,033,167</u>	<u>3,912,193</u>	<u>3,455,558</u>	<u>34,400,918</u>	<u>33,532,722</u>
Other Operating Revenues					
Penalties	184,632	37,786	43,898	266,316	208,181
Other	869,010	166,132	4,541	1,039,683	746,692
Total Other Operating Revenues	<u>1,053,642</u>	<u>203,918</u>	<u>48,439</u>	<u>1,305,999</u>	<u>954,873</u>
Total Operating Revenues	<u>28,086,809</u>	<u>4,116,111</u>	<u>3,503,997</u>	<u>35,706,917</u>	<u>34,487,595</u>
OPERATING EXPENSES					
Generation, Production, and Treatment					
Salaries and Wages	260,261	367,575	505,921	1,133,757	1,056,816
Purchased Services	13,775	42,864	292,530	349,169	295,741
Supplies and Maintenance	9,539	134,572	121,457	265,568	297,397
Employee Benefits	108,331	128,034	161,166	397,531	384,505
Other Charges	400	1,475	16,148	18,023	15,542
Total Generation, Production, and Treatment Expenses	<u>392,306</u>	<u>674,520</u>	<u>1,097,222</u>	<u>2,164,048</u>	<u>2,050,001</u>
Purchased Power	18,842,241	-	-	18,842,241	18,705,357
Distribution and Collection					
Salaries and Wages	1,579,055	586,611	118,487	2,284,153	2,042,106
Purchased Services	119,967	135,831	35,108	290,906	307,266
Supplies and Maintenance	482,959	50,929	2,496	536,384	401,853
Employee Benefits	411,542	161,133	48,724	621,399	632,964
Other Charges	57,900	21,260	177	79,337	71,736
Total Distribution and Collection Expenses	<u>2,651,423</u>	<u>955,764</u>	<u>204,992</u>	<u>3,812,179</u>	<u>3,455,925</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, 2025
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2024)**

	ELECTRIC	WATER	WASTEWATER TREATMENT	TOTALS	
				2025	2024
OPERATING EXPENSES (CONTINUED)					
Administration					
Salaries and Wages	\$ 749,047	\$ 241,770	\$ 232,922	\$ 1,223,739	\$ 1,248,223
Purchased Services	841,118	333,634	267,907	1,442,659	1,035,499
Supplies and Maintenance	7,313	2,676	3,338	13,327	22,026
Insurance and Bonds	247,903	66,272	96,236	410,411	396,368
Employee Benefits	114,943	4,870	(4,118)	115,695	391,929
Other Charges	713,655	198,797	215,305	1,127,757	974,493
Total Administration Expenses	2,673,979	848,019	811,590	4,333,588	4,068,538
Depreciation and Amortization	2,452,122	1,307,478	1,823,877	5,583,477	5,419,198
Total Operating Expenses	27,012,071	3,785,781	3,937,681	34,735,533	33,699,019
OPERATING INCOME (LOSS)	1,074,738	330,330	(433,684)	971,384	788,576
NONOPERATING REVENUE (EXPENSE)					
Interest Income - Investments	37,129	12,023	430,300	479,452	568,540
Interest Income - Notes Receivable	-	-	72,142	72,142	104,659
Interest Expense	(115,495)	(202,854)	(285,460)	(603,809)	(663,872)
Local Option Sales Tax	-	352,143	1,679,928	2,032,071	1,884,504
Federal Grant Revenue	5,036	1,679	42,524	49,239	186,269
Gain on Disposal of Capital Assets	27,902	-	-	27,902	21,327
Net Nonoperating Revenue (Expense)	(45,428)	162,991	1,939,434	2,056,997	2,101,427
INCOME BEFORE TRANSFERS	1,029,310	493,321	1,505,750	3,028,381	2,890,003
TRANSFERS TO THE CITY	(774,858)	-	-	(774,858)	(765,150)
CHANGE IN NET POSITION	\$ 254,452	\$ 493,321	\$ 1,505,750	\$ 2,253,523	\$ 2,124,853

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
AND AMORTIZATION
DECEMBER 31, 2025**

	Cost			
	12/31/2024	Additions	Retirements	12/31/2025
Electric Department				
<u>Generation</u>				
Land and Land Improvements	\$ 330,036	\$ -	\$ -	\$ 330,036
Generation Facilities	7,487,673	18,308	-	7,505,981
Machinery and Equipment	145,429	-	-	145,429
Transportation Equipment	22,365	-	-	22,365
Total Generation	7,985,503	18,308	-	8,003,811
<u>Distribution</u>				
Land and Land Improvements	321,103	-	-	321,103
Distribution System	35,919,179	1,180,840	-	37,100,019
Street and Security Lighting System	710,685	79,985	-	790,670
Machinery and Equipment	1,082,320	172,573	-	1,254,893
Transportation Equipment	1,769,319	509,287	50,062	2,228,544
Total Distribution	39,802,606	1,942,685	50,062	41,695,229
Total Electric Department	47,788,109	1,960,993	50,062	49,699,040
Water Department				
Land and Land Improvements	410,040	-	-	410,040
<u>Production</u>				
Structures and Improvements	1,872,948	-	-	1,872,948
Wells, Pumps and Accessories	1,005,263	52,804	-	1,058,067
Water Treatment Plant Equipment	2,495,990	-	-	2,495,990
Total Production	5,784,241	52,804	-	5,837,045
<u>Distribution</u>				
Distribution System	31,767,601	585,027	-	32,352,628
Machinery and Equipment	580,666	-	-	580,666
Transportation Equipment	473,097	-	22,340	450,757
Total Water Distribution	32,821,364	585,027	22,340	33,384,051
Total Water Department	38,605,605	637,831	22,340	39,221,096
Wastewater Treatment Department				
Land and Land Improvements	53,730	-	-	53,730
Collection System	8,291,512	1,328,144	-	9,619,656
Treatment Facility	31,625,531	-	-	31,625,531
Machinery and Equipment	810,872	11,110	-	821,982
Transportation Equipment	282,335	49,984	50,154	282,165
Total Wastewater Treatment Department	41,063,980	1,389,238	50,154	42,403,064
General Plant				
Land and Land Improvements	1,437,103	-	-	1,437,103
Service Center	4,069,975	-	-	4,069,975
Furniture and Fixtures	933,666	172,273	-	1,105,939
Right-to-Use Asset	467,417	88,892	56,689	499,620
Transportation Equipment	280,241	54,072	22,710	311,603
Storage Building	65,800	-	-	65,800
Total General Plant	7,254,202	315,237	79,399	7,490,040
Total Capital Assets in Service	134,711,896	4,303,299	201,955	138,813,240
Construction Work in Progress	2,797,211	5,521,101	4,231,545	4,086,767
Total Investment in Capital Assets	<u>\$ 137,509,107</u>	<u>\$ 9,824,400</u>	<u>\$ 4,433,500</u>	<u>\$ 142,900,007</u>

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
AND AMORTIZATION (CONTINUED)
DECEMBER 31, 2025**

Composite Depreciation Rates	Accumulated Depreciation				Percent of Asset Balance
	12/31/2024	Additions	Retirements	12/31/2025	
1.3%	\$ 46,723	\$ 4,303	\$ -	\$ 51,026	15.5%
3.9%	2,661,760	289,867	-	2,951,627	39.3%
13.2%	78,958	19,126	-	98,084	67.4%
5.1%	20,750	1,140	-	21,890	97.9%
3.9%	2,808,191	314,436	-	3,122,627	39.0%
0.0%	-	-	-	-	0.0%
4.5%	19,203,442	1,663,530	-	20,866,972	56.2%
5.5%	525,169	43,737	-	568,906	72.0%
4.4%	947,196	54,624	-	1,001,820	79.8%
5.4%	1,239,767	120,895	50,062	1,310,600	58.8%
4.5%	21,915,574	1,882,786	50,062	23,748,298	57.0%
	24,723,765	2,197,222	50,062	26,870,925	
0.0%	-	-	-	-	0.0%
0.9%	1,691,655	16,037	-	1,707,692	91.2%
5.8%	690,253	61,787	-	752,040	71.1%
4.7%	1,968,435	117,857	-	2,086,292	83.6%
3.4%	4,350,343	195,681	-	4,546,024	77.9%
3.0%	10,535,660	979,589	-	11,515,249	35.6%
8.3%	423,603	48,410	-	472,013	81.3%
4.6%	390,967	20,698	22,340	389,325	86.4%
3.1%	11,350,230	1,048,697	22,340	12,376,587	37.1%
3.2%	15,700,573	1,244,378	22,340	16,922,611	43.1%
0.0%	-	-	-	-	0.0%
3.9%	3,600,893	378,274	-	3,979,167	41.4%
4.2%	17,851,777	1,326,748	-	19,178,525	60.6%
6.0%	569,537	49,201	-	618,738	75.3%
6.5%	251,162	18,324	50,154	219,332	77.7%
4.2%	22,273,369	1,772,547	50,154	23,995,762	56.6%
0.6%	243,453	9,145	-	252,598	17.6%
3.1%	3,645,601	127,195	-	3,772,796	92.7%
9.0%	672,155	99,271	-	771,426	69.8%
7.1%	103,010	35,707	56,689	82,028	16.4%
8.6%	203,817	26,665	22,710	207,772	66.7%
0.0%	65,800	-	-	65,800	100.0%
4.0%	4,933,836	297,983	79,399	5,152,420	68.8%
4.0%	67,631,543	5,512,130	201,955	72,941,718	52.5%
	-	-	-	-	
3.9%	\$ 67,631,543	\$ 5,512,130	\$ 201,955	\$ 72,941,718	51.0%

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
ELECTRIC DISTRIBUTION DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2016 THROUGH 2025
(UNAUDITED)**

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Electric Capital Assets										
In Service (Thousands)	\$ 40,295	\$ 43,225	\$ 44,612	\$ 43,103	\$ 44,904	\$ 45,322	\$ 47,513	\$ 48,301	\$ 51,845	\$ 54,926
Investment Per Meter	\$ 5,046	\$ 5,377	\$ 5,510	\$ 5,288	\$ 5,464	\$ 5,503	\$ 5,668	\$ 5,843	\$ 6,213	\$ 6,520
Investment Per Dollar of Electric Revenue	\$ 2.22	\$ 2.23	\$ 2.11	\$ 2.05	\$ 2.25	\$ 2.19	\$ 2.20	\$ 1.97	\$ 1.90	\$ 1.96
Accumulated Depreciation (Thousands)	\$ 17,441	\$ 19,024	\$ 20,711	\$ 18,888	\$ 20,552	\$ 21,177	\$ 23,334	\$ 25,578	\$ 27,910	\$ 30,195
Percent of Capital Assets	43.3%	44.0%	46.4%	43.8%	45.8%	46.7%	49.1%	53.0%	53.8%	55.0%
Annual Depreciation (Thousands)	\$ 1,636	\$ 1,763	\$ 1,914	\$ 2,088	\$ 2,233	\$ 2,269	\$ 2,260	\$ 2,282	\$ 2,391	\$ 2,356
Percent of Annual Depreciation to Average Capital Assets in Service	4.1%	4.2%	4.4%	4.8%	5.1%	5.0%	4.9%	4.7%	4.6%	4.3%
Number of Meters (Year-End)	7,986	8,039	8,096	8,151	8,218	8,236	8,383	8,267	8,344	8,424
Cost of Power										
KWH Purchased (Thousands)	166,984	165,645	170,684	167,222	159,528	171,355	172,586	194,577	329,298	298,797
KWH Generated	20,116	19,401	19,081	17,744	18,727	12,983	16,584	10,866	9,203	12,712
Total Cost (Thousands)	\$ 12,475	\$ 12,754	\$ 11,854	\$ 11,928	\$ 10,559	\$ 12,021	\$ 12,256	\$ 13,781	\$ 18,705	\$ 18,842
Cost Per KWH Purchased (Cents)	7.47	7.70	6.94	7.10	6.60	7.02	7.34	7.08	5.68	6.31
Percent of System Loss	3.6%	3.5%	3.4%	3.6%	3.3%	3.1%	2.3%	2.0%	2.4%	-2.3%
Average Load Factor for Year	66.5%	66.9%	66.3%	64.3%	68.8%	66.8%	67.6%	58.7%	87.8%	79.0%
Electric Revenue										
KWH Sold (Thousands)	180,334	178,511	183,244	178,392	172,315	178,605	184,500	218,085	330,542	318,724
Electric Utility Revenue (Thousands)	\$ 18,159	\$ 19,412	\$ 21,183	\$ 21,007	\$ 19,905	\$ 20,673	\$ 21,556	\$ 24,024	\$ 27,350	\$ 28,087
Per KWH Sold (Cents)	10.07	10.87	11.56	11.78	11.55	11.57	11.68	11.02	8.27	8.81
Gross Margin Per KWH (Cents)	2.60	3.17	4.62	4.68	4.95	4.55	4.34	3.93	2.59	2.51
Operating Income (Loss) (Thousands)	\$ 556	\$ 1,504	\$ 3,594	\$ 3,131	\$ 2,855	\$ 1,937	\$ 2,465	\$ 2,983	\$ 1,092	\$ 1,075
Change in Net Position (Thousands)	\$ (457)	\$ 473	\$ 2,690	\$ 2,250	\$ 2,087	\$ 988	\$ 1,356	\$ 2,129	\$ 401	\$ 254

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

**BRAINERD PUBLIC UTILITIES
BRAINERD, MINNESOTA
WATER DEPARTMENT STATISTICS
FOR THE TEN YEARS ENDED DECEMBER 31, 2016 THROUGH 2025
(UNAUDITED)**

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Water Capital Assets										
In Service (Thousands)	\$ 17,930	\$ 24,356	\$ 25,582	\$ 27,467	\$ 28,398	\$ 31,356	\$ 34,929	\$ 38,136	\$ 40,059	\$ 40,742
Investment Per Meter	\$ 3,835	\$ 5,160	\$ 5,368	\$ 5,725	\$ 5,865	\$ 6,448	\$ 7,058	\$ 7,754	\$ 8,116	\$ 8,168
Investment Per Dollar of Water Revenue	\$ 7.95	\$ 10.43	\$ 10.24	\$ 10.72	\$ 10.54	\$ 7.96	\$ 10.63	\$ 11.55	\$ 11.76	\$ 9.90
Accumulated Depreciation (Thousands)	\$ 8,608	\$ 9,387	\$ 10,310	\$ 11,009	\$ 11,997	\$ 13,180	\$ 14,309	\$ 15,571	\$ 16,903	\$ 18,174
Percent of Capital Assets	48.0%	38.5%	40.3%	40.1%	42.2%	42.0%	41.0%	40.8%	42.2%	44.6%
Annual Depreciation (Thousands)	\$ 702	\$ 821	\$ 1,005	\$ 1,060	\$ 1,142	\$ 1,182	\$ 1,172	\$ 1,256	\$ 1,334	\$ 1,302
Percent of Annual Depreciation to Average Capital Assets in Service	4.0%	3.9%	4.1%	4.0%	4.1%	4.0%	3.5%	3.3%	3.3%	3.2%
Number of Meters (Year-End)	4,675	4,720	4,766	4,798	4,842	4,863	4,949	4,918	4,936	4,988
Cost of Water Production										
Gallons Pumped into Distribution System (Thousands)	492,846	482,159	465,743	473,439	490,593	908,885	576,007	524,270	518,659	481,786
Total Cost (Thousands)	\$ 459	\$ 472	\$ 493	\$ 495	\$ 593	\$ 713	\$ 821	\$ 974	\$ 855	\$ 863
Cost Per Thousand Gallons Pumped	\$ 0.93	\$ 0.98	\$ 1.06	\$ 1.05	\$ 1.21	\$ 0.78	\$ 1.42	\$ 1.86	\$ 1.65	\$ 1.79
Percent of System Loss	18.8%	19.5%	15.6%	18.5%	19.5%	15.3%	14.4%	20.0%	16.4%	15.4%
Water Revenue										
Gallons Sold (Thousands)	400,226	388,296	393,241	385,936	395,137	770,302	493,350	420,688	433,466	407,783
Water Utility Revenue (Thousands)	\$ 2,254	\$ 2,335	\$ 2,499	\$ 2,563	\$ 2,695	\$ 3,935	\$ 3,283	\$ 3,302	\$ 3,407	\$ 4,116
Per Thousand Gallons Sold	\$ 5.63	\$ 6.01	\$ 6.35	\$ 6.64	\$ 6.82	\$ 5.11	\$ 6.65	\$ 7.85	\$ 7.86	\$ 10.09
Gross Margin Per Thousand Gallons Sold	\$ 4.70	\$ 5.03	\$ 5.29	\$ 5.59	\$ 5.61	\$ 4.33	\$ 5.23	\$ 5.99	\$ 6.21	\$ 8.30
Operating Income (Loss) (Thousands)	\$ 72	\$ (87)	\$ (178)	\$ (295)	\$ (252)	\$ 717	\$ (530)	\$ (913)	\$ (173)	\$ 330
Change in Net Position (Thousands) Before Capital Contributions from City	\$ 12	\$ 133	\$ (122)	\$ (132)	\$ (102)	\$ 768	\$ (273)	\$ (710)	\$ 68	\$ 493

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, 2016 THROUGH 2025
(UNAUDITED)**

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Wastewater Treatment Capital Assets										
In Service (Thousands)	\$ 36,453	\$ 37,612	\$ 37,870	\$ 38,240	\$ 39,441	\$ 39,024	\$ 40,035	\$ 39,601	\$ 42,808	\$ 44,193
Investment Per Account	\$ 7,882	\$ 8,045	\$ 8,040	\$ 8,045	\$ 8,236	\$ 8,106	\$ 8,165	\$ 8,120	\$ 8,740	\$ 8,968
Investment Per Dollar of Wastewater Treatment Revenue	\$ 14.75	\$ 14.38	\$ 13.81	\$ 13.28	\$ 14.51	\$ 13.73	\$ 13.81	\$ 10.73	\$ 12.45	\$ 12.61
Accumulated Depreciation (Thousands)	\$ 11,113	\$ 12,421	\$ 13,767	\$ 15,250	\$ 16,617	\$ 17,688	\$ 19,522	\$ 21,125	\$ 22,818	\$ 24,573
Percent of Capital Assets	30.5%	33.0%	36.4%	39.9%	42.1%	45.3%	48.8%	53.3%	53.3%	55.6%
Annual Depreciation (Thousands)	\$ 1,402	\$ 1,429	\$ 1,497	\$ 1,499	\$ 1,547	\$ 2,010	\$ 1,840	\$ 1,750	\$ 1,695	\$ 1,818
Percent of Annual Depreciation to Average Capital Assets in Service	3.9%	3.9%	4.0%	3.9%	4.0%	5.1%	4.7%	4.4%	4.0%	4.1%
Number of Accounts (Year-End)	4,625	4,675	4,710	4,753	4,789	4,814	4,903	4,877	4,898	4,928
Cost of Wastewater Treatment										
Flow in Gallons Processed (Thousands)	764,803	844,303	751,581	808,631	753,696	659,261	734,406	682,215	726,977	726,977
Total Treatment Cost (Thousands)	\$ 1,084	\$ 1,189	\$ 1,372	\$ 1,351	\$ 1,358	\$ 1,378	\$ 1,371	\$ 1,596	\$ 1,455	\$ 1,097
Cost Per Thousand Gallons Processed	\$ 1.42	\$ 1.41	\$ 1.83	\$ 1.67	\$ 1.80	\$ 2.09	\$ 1.86	\$ 2.34	\$ 2.00	\$ 1.51
Percent of System Loss	28.7%	31.8%	23.3%	28.1%	26.2%	12.3%	24.5%	14.8%	22.3%	21.2%
Wastewater Treatment Revenue										
Flow in Gallons Sold (Thousands)	545,513	575,734	567,477	581,822	556,108	578,185	554,669	580,914	564,990	572,947
Wastewater Treatment Utility Revenue (Thousands)	\$ 2,471	\$ 2,616	\$ 2,742	\$ 2,880	\$ 2,717	\$ 2,842	\$ 2,897	\$ 3,689	\$ 3,438	\$ 3,504
Per Thousand Gallons Sold	\$ 4.53	\$ 4.54	\$ 4.76	\$ 4.95	\$ 4.89	\$ 4.91	\$ 5.22	\$ 6.35	\$ 6.09	\$ 6.12
Gross Margin Per Thousand Gallons Sold	\$ 3.11	\$ 3.13	\$ 2.93	\$ 3.28	\$ 3.09	\$ 2.82	\$ 3.36	\$ 4.01	\$ 4.09	\$ 4.61
Operating Income (Loss) (Thousands)	\$ (719)	\$ (797)	\$ (887)	\$ (776)	\$ (1,005)	\$ (1,430)	\$ (1,329)	\$ (1,378)	\$ (131)	\$ (434)
Change in Net Position (Thousands)	\$ 15	\$ 135	\$ (27)	\$ 428	\$ 296	\$ (280)	\$ (267)	\$ 248	\$ 1,655	\$ 1,692

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



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

Brainerd Public Utilities Commission
Brainerd Public Utilities
Brainerd, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Brainerd Public Utilities (BPU) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise BPU's financial statements, and have issued our report thereon dated May 20, 2026.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BPU's internal control. Accordingly, we do not express an opinion on the effectiveness of BPU's internal control.

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

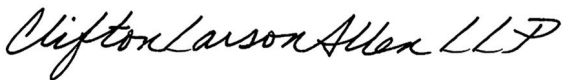
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether BPU’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
May 20, 2026



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), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise BPU's financial statements and have issued our report thereon dated May 20, 2026.

In connection with our audit, we noted BPU failed to comply with provisions of the claims and disbursements sections of *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters described in the schedule of findings and responses as item 2025-001. Also, 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 – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, 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 BPU's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

Government Auditing Standards requires the auditor to perform limited procedures on BPU's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. BPU's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Cities* 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
May 20, 2026

**BRAINERD PUBLIC UTILITIES
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2025**

A. FINDINGS – MINNESOTA LEGAL COMPLIANCE

Finding 2025-001 - Late Payment of Claims

Type of Finding: Minnesota Legal Compliance

Condition: There were checks that were not paid within the 35-day requirement. However, it was noted that BPU paid the required interest with the payments per MN Statute.

Criteria or Specific Requirement: Per *Minnesota State Statute* § 471.425, subd. 2, BPU must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period (35 days) unless the Utility in good faith disputes the obligation.

Effect: BPU is not in compliance with Minnesota Statute.

Cause: There was staff turnover within the office.

Repeat Finding: Yes.

Recommendation: We recommend BPU pay all contractors within the terms of the contract or within the standard payment period (35 days).

Views of Responsible Officials: There is no disagreement with the audit finding.



CLA (CliftonLarsonAllen LLP) is a network member of CLA Global. See CLAGlobal.com/disclaimer. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.