

CITY OF BRAINERD, MINNESOTA

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED DECEMBER 31, 2006

PREPARED BY:
Administrator's Office

Administrator
Daniel J. Vogt

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INTRODUCTORY SECTION



June 20, 2007

Honorable Mayor and
Members of the City Council
City of Brainerd
Brainerd, Minnesota

Minnesota Statutes require cities to issue an annual report on its financial position and activity prepared in accordance with Generally Accepted Accounting Principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants or the Office of the State Auditor. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Brainerd for the fiscal year ended December 31, 2006.

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Chief of Police
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This report consists of management's representations concerning the finances of the City of Brainerd. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Brainerd has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Brainerd's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Brainerd's internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Brainerd's financial statements have been audited by LarsonAllen LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Brainerd for the fiscal year ended December 31, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Brainerd's financial statements for the fiscal year ended December 31, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Brainerd's MD&A can be found immediately following the report of the independent auditors.

Equal Opportunity Employer



PROFILE OF THE GOVERNMENT

The City of Brainerd was incorporated in 1881 and is governed by a Home Rule Charter. Brainerd is the County seat of Crow Wing County and is located in central Minnesota approximately 125 miles north of the Minneapolis/St. Paul metropolitan area. The City is considered a regional center in the state and serves a population of 13,780 according to the State Demographer's Office. The City of Brainerd is empowered to levy a property tax on both real and personal properties located within its boundaries. The City is also empowered by state statute to extend its corporate limits by annexation which has been used to accommodate continued growth of the community.

Policy-making and legislative authority are vested in a City Council consisting of the Mayor and seven Council members. According to the Charter, the Mayor is the Chief Executive Officer of the City and the City Administrator is the Chief Administrative Officer of the City. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring staff including the City Administrator. The City Administrator is responsible for carrying out the policies of the City Council and for overseeing the day-to-day operations of the City government excluding the Public Utilities Department. The Council is elected on a non-partisan basis. The Mayor and Council members serve four-year staggered terms, with four Council members elected during an election and the Mayor and three Council members elected during the next election. Four Council members are elected by Wards and the Mayor and three Council members are elected at large.

The City of Brainerd provides a full range of municipal services. These include: public safety (police and fire), streets, economic development services, culture/parks/recreation, engineering, public improvements, animal control, civil defense, planning and zoning and general administrative services. The City also operates public electric, water, sanitary and storm sewer collection and treatment utilities and is co-owner of a municipal airport.

The annual budget serves as the foundation for the City of Brainerd financial planning and control. All departments and agencies of the City submit requests for appropriation to the City Administrator in July/August of each year. The City Administrator and Finance Director use these requests as the starting point for developing a proposed budget. The City Administrator and Finance Director then present this proposed budget to the Council for review. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than December 31, the close of the City of Brainerd's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads utilize the approved budget to make appropriations within their department. Transfers of appropriations between funds require the special approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and public safety, this comparison is presented starting on page 77 as part of the required supplementary information. For budgeted nonmajor special revenue funds this comparison is presented in the combining and individual nonmajor statements and schedules of this report, which starts on page 80.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Brainerd operates.

LOCAL ECONOMY

The City of Brainerd currently enjoys a favorable economic environment with indications pointing to continued stability. The City of Brainerd is situated in the heart of one of the prime resort and recreational areas in the state which includes Gull Lake, the Whitefish Chain of Lakes, the northwest shore of Mille Lacs Lake as well as over 400 additional lakes located within 25 miles of the City. The greatest economic impact from tourism and recreation in the area is derived during the summer season due to the lake oriented amenities available in the region as well as the numerous championship golf courses located within 15-30 minutes of the City. Winter activities such as ice fishing, skiing and snowmobiling attract vacationers during the winter season.

LOCAL ECONOMY (CONTINUED)

The Cities of Brainerd and neighboring Baxter are the major commercial, service and industrial centers in the region. The trade area encompasses a year-round population in excess of 60,000 and includes major resort facilities on Gull Lake and the Whitefish Chain of Lakes. It is estimated that area population nearly doubles during the summer months due to the high number of second homes/seasonal residents and tourists. In recent years, a great deal of new commercial development and redevelopment has taken place along local state highways including the construction of numerous national chain stores, auto dealerships, motels, banks, gas and highway convenience stores and restaurants. In addition to commercial and industrial development, the Minnesota Department of Transportation, Minnesota Pollution Control Agency, Minnesota Department of Natural Resources and the State-run Brainerd Regional Human Services Center have their regional operations located in the Brainerd area, further diversifying the local job market.

Continued annexation of property located adjacent to the City will allow the community to continue to grow to accommodate commercial/industrial and residential opportunities.

MAJOR INITIATIVES

The Brainerd Council is directing staff on numerous projects that will affect the growth of the City. A partial list of the major projects includes:

- Laurel Street Reconstruction. This two phased project consists of the reconstruction of Laurel Street east of the Mississippi River. Completion on this \$1.4 million dollar project occurred in 2005. The second phase included the reconstruction of Laurel Street west of the river and continued with the reconstruction of NW/SW 4th Street. The project included bridge deck modification to accommodate a bike trail along with coordination with the BNSF railroad to replace the grade crossing and signalization. The cost was approximately \$1.2 million with construction completed in the fall of 2006.
- Downtown Master Plan Implementation. Portions of the Downtown Master Plan which was completed in 2002 are being implemented. The improvements include decorative lighting as part of the Laurel Street reconstruction project mentioned above. Additional improvements are under consideration for the streets in the core Downtown area including Laurel Street and Front Streets from South 6th to South 8th and South 7th Street from Front Street to Maple Street. Decorative lighting will also be installed in conjunction with this project on Laurel Street and South 7th Street.
- College Drive Reconstruction. This project has been given tentative approval for Federal funding in the amount of \$1.724 million which is 80% of the total estimated project cost. Construction is expected to begin in 2008.
- Wastewater Treatment Facility Upgrade. This \$35 million Brainerd Public Utilities Commission project is nearing the bidding stage with the intent of starting construction in mid-2007. The existing facility will upgrade from a flow capacity of 3.6 MGD to 6 MGD to accommodate not only existing flows but also future growth. The current facility accepts wastewater from the cities of Brainerd and Baxter. A local option sales tax was approved by the voters of the City in November of 2006 with sales tax collections beginning in April of 2007 to help defray construction costs of the facility upgrade. Utility rate adjustments were also made to assist in financing the upgrade.

MAJOR INITIATIVES (CONTINUED)

- Industrial Park Expansion. The Economic Development Authority and the City Council have approved expansion of the Brainerd Industrial Park. The expansion is in two areas including the purchase of an 80 acre tract of land east of the current Industrial Park as well as the purchase/donation of an additional 45 acres of land northeast of the original Industrial Park. Utility extensions are in the planning stages with construction to occur in 2007 at both sites. The 80 acre tract will receive infrastructure construction funding assistance from a \$350,000 grant from the Minnesota Department of Employment and Economic Development (DEED). The existing Industrial Park has just four lots remaining which contain about 8.5 acres.
- Annexation. An agreement was reached with a property owner and adjacent Township in early 2006 to annex approximately 640 acres of vacant land into the City. Development is anticipated at such time as the land is sold. Also, the 80 acre tract of Industrial Park expansion property mentioned above was annexed into the City in late 2006.
- Other. Several other projects are in various stages of development including the Bluff Avenue/North Brainerd street reconstruction project to be constructed in 2007, the extension of Wright Street slated for construction in 2007 (tied to an Industrial Park expansion noted above), Buffalo Hills Lane reconstruction west of Greenwood Street, Willow Street signalization and Riverside Drive Phase II. The placing of water and sewer mains along with the reconstruction of Beaver Dam Road in conjunction with Crow Wing County occurred in late 2006. Master utility planning has been completed for the areas northeast of the City which will provide sewer and water services to the Brainerd Lakes Regional Airport. A development agreement is currently being discussed which would allow the developer to install utility infrastructure which benefits areas outside of the developers control. The development agreement could contain language that allows the developer to recoup expenses for the portion of construction costs that benefit areas beyond the developer's property.

CASH MANAGEMENT POLICIES AND PRACTICES

Cash temporarily idle during the year was placed in interest bearing checking accounts, money market accounts, certificates of deposit and U.S. government securities to maximize interest earnings on all funds. The maturities of the investments range from 1 month to 5 years, with an average maturity of 9 months. The investment income return for 2006 on all investments was 5.61 percent.

RISK MANAGEMENT

The City annually reviews and updates insurance coverage for City owned property and liability. The City has coverage through the League of Minnesota Cities Insurance Trust. Premiums and claims paid are billed to the operating functions. The City has received dividends on its property/liability package and reserved the dividends to cover the deductible portion of future claims.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Brainerd for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2005. This was the 13th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

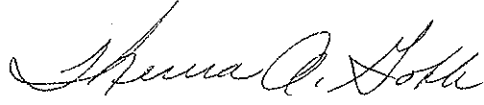
AWARDS AND ACKNOWLEDGEMENTS (CONTINUED)

The preparation of this report would not have been possible without the dedicated services of the Administration Department staff. We would like to express our appreciation to all members of the Department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and City Council for their support for maintaining the high standards of professionalism in the management of the City of Brainerd finances.

Respectfully submitted,



Daniel J. Vogt
City Administrator



Theresa A. Goble
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Brainerd
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

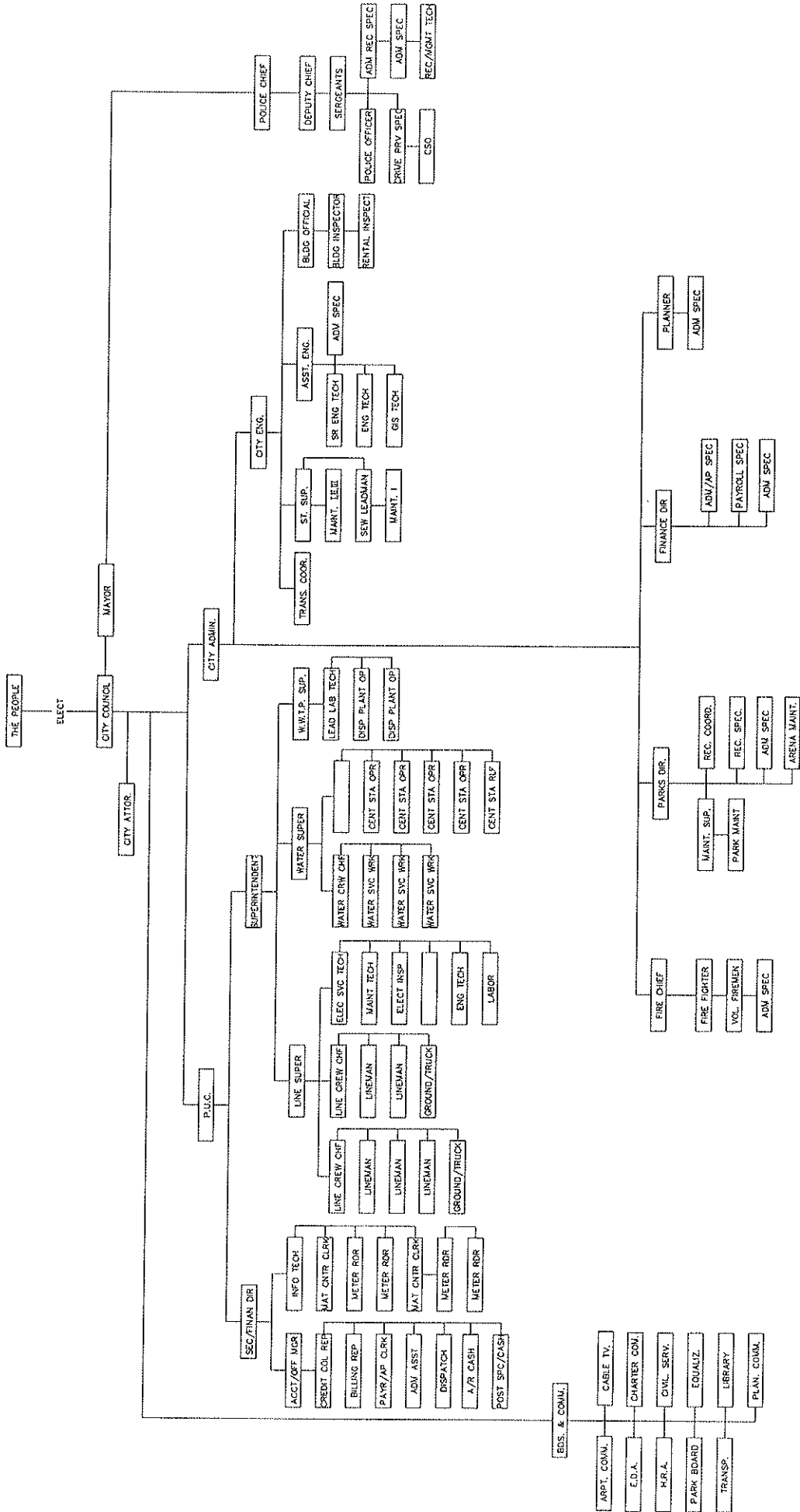
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF BRAINERD, MINNESOTA
 ORGANIZATIONAL CHART
 DECEMBER 31, 2006



**CITY OF BRAINERD, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2006**

Position	Term Expires	Name
ELECTED OFFICIALS		
Mayor	01/01/07	James E. Wallin
Council Member, President Ward 2	01/01/07	Kelly Bevans
Council Member, Vice President, At Large	01/01/09	Mark O'Day
Council Member, Ward 1	01/01/09	Lucy Nesheim
Council Member, Ward 3	01/01/09	Kevin Goedker
Council Member, Ward 4	01/01/07	Anne Nelson Fisher
Council Member, At Large	01/01/09	Robert E. Olson
Council Member, At Large	01/01/07	Mary Koep
APPOINTED OFFICIALS		
City Administrator		Daniel J. Vogt
Finance Director/Deputy Clerk		Theresa Goble
Attorney		Thomas Fitzpatrick
Engineer		Jeffrey Hulsether
Planner		Mark Ostgarden
Fire Chief		Fred Underhill
Police Chief		John Bolduc
Auditor		LarsonAllen LLP
HRA Executive Director		Douglas Grout
Airport Manager		Steve D. Sievek
Public Utilities Superintendent		Tom Phelps
Public Utilities Secretary		Todd Wicklund

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Brainerd
Brainerd, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Brainerd's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brainerd, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2007, on our consideration of the City of Brainerd's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in assessing the results of our audit.

Honorable Mayor and
Members of the City Council
City of Brainerd

The management's discussion and analysis, schedule of funding progress, and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund statements and schedules, component unit financial statements, and statistical information section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund statements, component unit financial statements, and the schedule of expenditures of federal awards have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


LarsonAllen LLP

Brainerd, Minnesota
June 20, 2007

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

As management of the City of Brainerd, Minnesota, we offer readers of the City of Brainerd's financial statements this narrative overview and analysis of the financial activities of the City of Brainerd for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-5 of this report.

Financial Highlights

- ◆ The assets of the City of Brainerd exceeded its liabilities at the close of the most recent financial year by \$39,863,824 (Net assets). Of this amount, \$6,901,733 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designations fiscal policies.
- ◆ The City's total net assets increased by \$2,420,657 from operations.
- ◆ As of the close of the current fiscal year, the City of Brainerd's governmental funds reported combined ending fund balances of \$6,795,779.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,020,929 or 48% of total General Fund expenditures plus routine transfers to fund operations of the Public Safety, Street and Sewer, and Park and Recreation Funds.
- ◆ The City of Brainerd's total bonded debt increased by \$161,025 during the current fiscal year.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the City of Brainerd's basic financial statements for the years ended December 31, 2006 and 2005. The information presented should be read in conjunction with the financial statements and the accompanying notes for the financial statements. The City of Brainerd's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principals generally accepted in the United States of America. This report also contains the independent auditors' report, notes that explain in more detail information in the financial statements, and statistical information on a multi-year basis.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Brainerd's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation/sick leave).

Both of the government-wide financial statements distinguish functions of the City of Brainerd that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Brainerd include general government, public safety, public works, economic development, culture and recreation. The business-type activities of the City of Brainerd include the Arena Fund.

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

The government-wide financial statements can be found on pages 21 - 24 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Brainerd, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Brainerd can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statement. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Brainerd maintains five individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, public safety fund, revolving loans fund, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for the other nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Brainerd adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for those funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 25 - 29 of this report.

Proprietary Funds

The City of Brainerd maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The City of Brainerd uses an enterprise fund to account for its arena operations. An internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Brainerd uses an internal service fund to account for its health insurance and general risk management. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

Overview of the Financial Statements (Continued)

Proprietary Funds (Continued)

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the arena operation, which is considered to be a major fund of the City of Brainerd.

The basic proprietary fund financial statements can be found on pages 31 -34 of this report.

Notes to Financial Statements

The notes provided additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages of this report.

Other information

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 80-100 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Brainerd, assets exceeded liabilities by \$39,863,824 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (69 percent) reflects its investment in capital assets (e.g., land, building, equipment, infrastructure) less any related debt used to acquire those assets that is still outstanding. The City of Brainerd uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Brainerd's 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 sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City's net assets:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 14,549,197	\$ 13,276,658	\$ (268,746)	\$ (333,053)	\$ 14,280,451	\$ 12,943,605
Capital Assets	38,567,658	36,492,905	1,359,997	1,446,350	39,927,655	37,939,255
Total Assets	53,116,855	49,769,563	1,091,251	1,113,297	54,208,106	50,882,860
Long-Term Liabilities						
Outstanding	13,520,613	12,721,411	17,264	18,834	13,537,877	12,740,245
Other Liabilities	772,551	678,771	33,854	20,680	806,405	699,451
Total Liabilities	14,293,164	13,400,182	51,118	39,514	14,344,282	13,439,696
Net Assets						
Invested in Capital Assets, Net						
of Related Debt	26,265,720	24,842,011	1,359,997	1,098,955	27,625,717	25,940,966
Restricted	5,336,374	5,370,482	-	-	5,336,374	5,370,482
Unrestricted	7,221,597	6,156,888	(319,864)	(25,172)	6,901,733	6,131,716
Total Net Assets	\$ 38,823,691	\$ 36,369,381	\$ 1,040,133	\$ 1,073,783	\$ 39,863,824	\$ 37,443,164

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

Government-Wide Financial Analysis (Continued)

A portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$6,901,733) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Brainerd is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City's changes in net assets:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program Revenues						
Charges for Services	\$ 3,417,498	\$ 3,596,010	\$ 354,687	\$ 339,739	\$ 3,772,185	\$ 3,935,749
Operating Grants and Contributions	1,024,439	974,170	99,694	93,626	1,124,133	1,067,796
Capital Grants and Contributions	2,484,970	1,907,045	-	-	2,484,970	1,907,045
General Revenues						
Property Taxes	3,355,375	2,981,121	-	-	3,355,375	2,981,121
Franchise Fees	106,462	320,854	-	-	106,462	320,854
Grants and Contributions not						
Restricted to Specific Programs	5,201,828	4,047,006	-	-	5,201,828	4,047,006
Unrestricted Investment Earnings	262,316	167,250	-	-	262,316	167,250
Other	221,882	1,029,670	558	-	222,440	1,029,670
Total Revenues	<u>16,074,770</u>	<u>15,023,126</u>	<u>454,939</u>	<u>433,365</u>	<u>16,529,709</u>	<u>15,456,491</u>
Expenses						
General Government	2,191,293	2,158,269	-	-	2,191,293	2,158,269
Public Safety	4,669,866	4,254,567	-	-	4,669,866	4,254,567
Public Works	4,303,971	4,986,031	-	-	4,303,971	4,986,031
Culture and Recreation	1,013,141	886,338	-	-	1,013,141	886,338
Economic Development	1,005,084	664,924	-	-	1,005,084	664,924
Debt Service	437,108	473,298	-	-	437,108	473,298
Arena	-	-	488,589	490,900	488,589	490,900
Total Expenses	<u>13,620,463</u>	<u>13,423,427</u>	<u>488,589</u>	<u>490,900</u>	<u>14,109,052</u>	<u>13,914,327</u>
Increase (Decrease) in Net Assets						
before Transfers	2,454,307	1,599,699	(33,650)	(57,535)	2,420,657	1,542,164
Transfers	-	(38,000)	-	38,000	-	-
Net Assets 1/1/06	<u>36,369,384</u>	<u>34,807,685</u>	<u>1,073,783</u>	<u>1,093,318</u>	<u>37,443,167</u>	<u>35,901,003</u>
Net Assets 12/31/06	<u>\$ 38,823,691</u>	<u>\$ 36,369,384</u>	<u>\$ 1,040,133</u>	<u>\$ 1,073,783</u>	<u>\$ 39,863,824</u>	<u>\$ 37,443,167</u>

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

Government-Wide Financial Analysis (Continued)

Governmental Activities

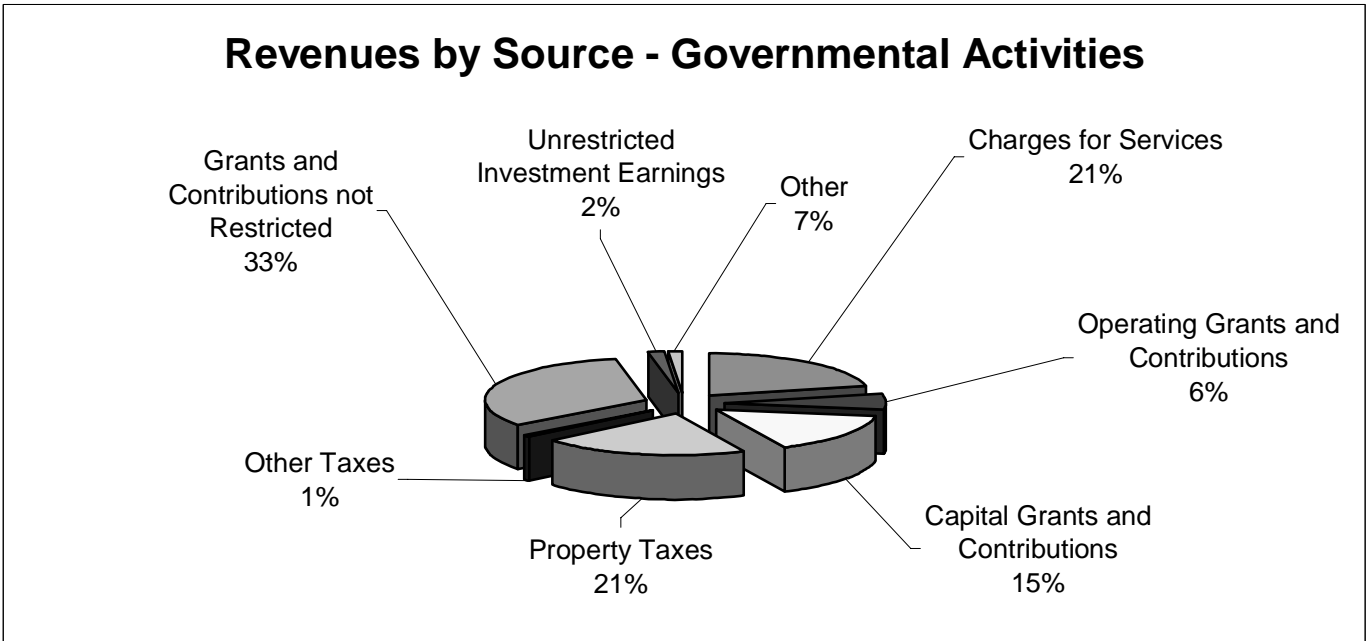
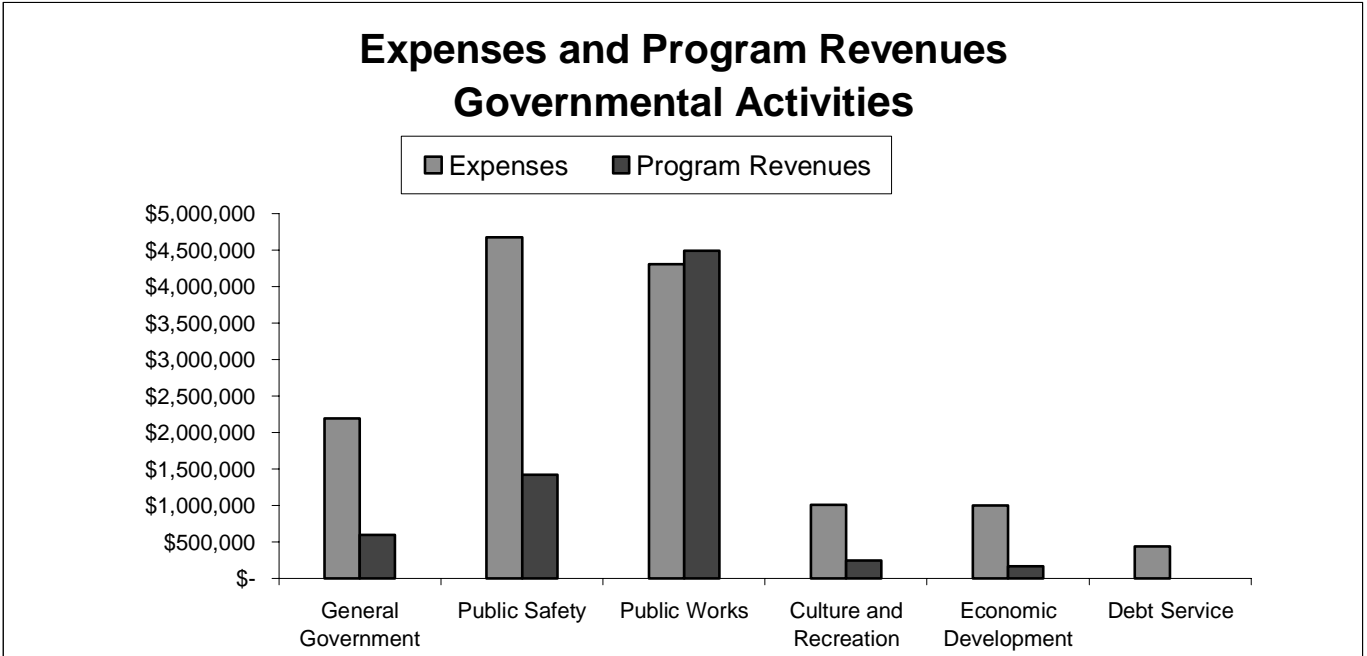
Governmental activities increased the City's net assets by \$2,454,307.

- ◆ The City received \$7,244,694 in federal and state grant funding in 2006.
- ◆ The City collected \$571,551 in special assessment principal and interest related to improvement projects and industrial park lots.
- ◆ The City received \$869,500 in a non-cash donation of industrial park land.
- ◆ The City sold industrial park lots for \$41,200. Other miscellaneous revenue was approximately \$176,000.

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

Government-Wide Financial Analysis (Continued)

Governmental Activities (Continued)



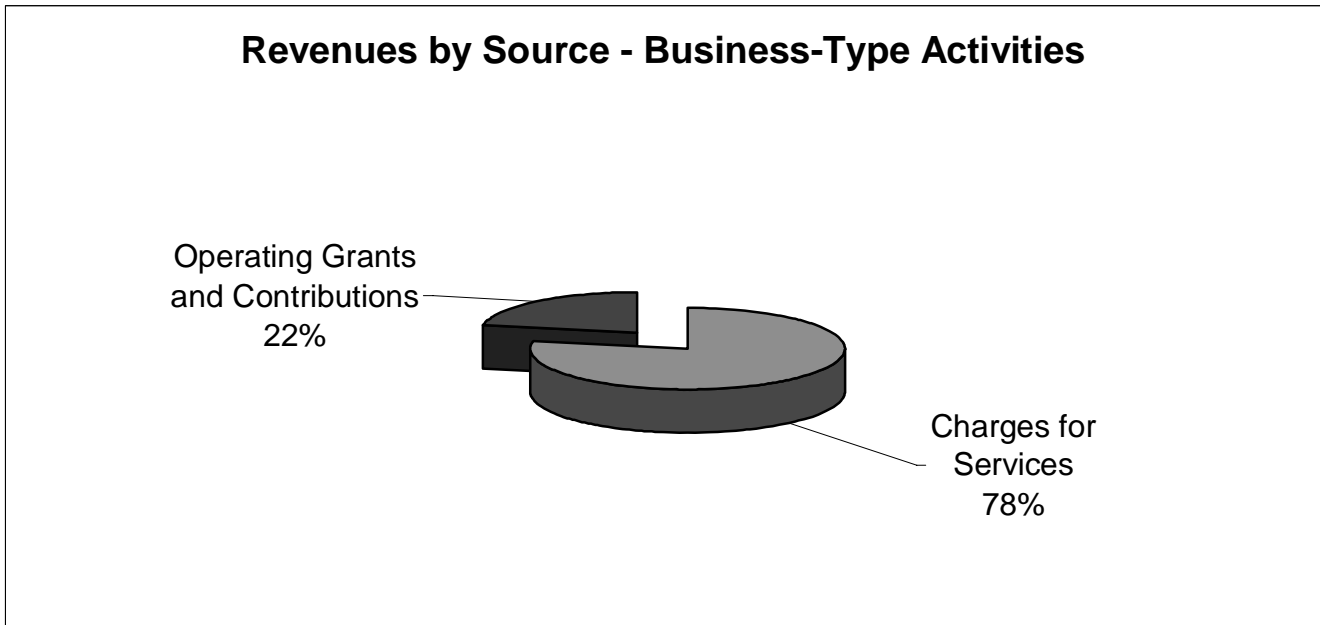
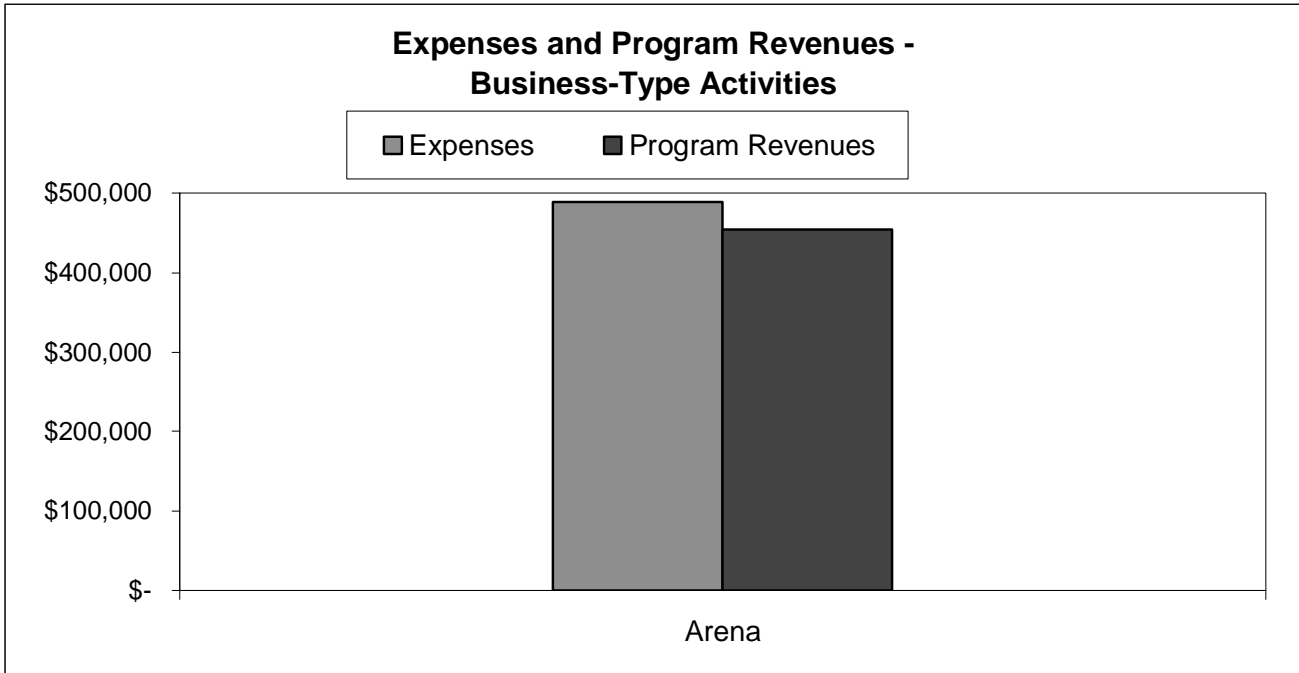
**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

Government-Wide Financial Analysis (Continued)

Business-Type Activities

Business-type activities decreased the City's net assets by \$33,650.

- ◆ Charges for services increased \$14,948 from the prior year, primarily due to a \$9,500 increase in ice rental charges and \$5,000 increase in gate admissions.
- ◆ Operating expenses decreased \$2,311 from the prior year mainly due to the decreased depreciation of \$6,730.
- ◆ Operating transfers decreased \$38,000 from the prior year.



**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

Financial Analysis of Governmental Funds

Governmental Funds

The focus of the City of Brainerd's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,795,779. Approximately 72% of this total amount (\$4,897,035) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for debt retirement (\$1,898,744).

The General Fund increased its fund balance by \$208,186 in 2006. Revenues exceeded budget by \$41,934, or 1%. Expenditures exceeded budget by \$109,071, or 6%.

The Public Safety Fund decreased its fund deficit by \$75,339 in 2006. Total revenues exceeded budget projections by \$20,463 or 1 percent. Expenditures were under budget by \$16,778, or .38 percent. The majority of funding is provided by transfers of \$2,983,943 from the General Fund.

The Revolving Loans Fund decreased its fund balance by \$53,717 in 2006.

The Debt Service Fund decreased its fund balance by \$509,935 in 2006. The main source of revenue is collections of property taxes and special assessments used to pay debt service.

The Capital Projects Fund decreased its fund balance by \$609,766 in 2006. Major sources of revenue included Intergovernmental funding (\$1,348,496), proceeds from issuance of debt (\$1,630,000) and transfers from other funds (\$430,040).

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The net assets in the Arena Fund are \$1,040,133 at December 31, 2006. The fund decreased its net assets by \$33,650 during the year.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2006, amounts to \$39,927,655 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, machinery and equipment.

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

The City's capital assets (net of depreciation):

	Governmental Activities	Business-Type Activities	Total
Land	\$ 1,729,541	\$ 90,400	\$ 1,819,941
Construction in Progress	863,228	-	863,228
Land Improvements	204,952	-	204,952
Buildings	5,281,960	326,250	5,608,210
Improvements Other Than Buildings	1,111,730	743,505	1,855,235
Machinery and Equipment	1,227,951	199,608	1,427,559
Infrastructure	27,451,103	-	27,451,103
Motor Vehicles	511,315	-	511,315
Office Equipment	185,878	234	186,112
Total	\$ 38,567,658	\$ 1,359,997	\$ 39,927,655

Additional information on the City's capital assets can be found in Note 3 starting on page 54 of this report.

Long-Term Debt

At the end of the current fiscal year, the City had total bonded indebtedness of \$11,625,591. Of this amount, \$1,185,000 comprises debt backed by the full faith and credit of the City and \$9,330,000 is special assessment debt for which the City is liable for in the event of default by the property owners subject to the assessment. The remainder of the City's bonded debt is secured by specified revenue sources (i.e., revenue bonds).

The City's outstanding bonded indebtedness at December 31, 2006:

	Governmental Activities
General Obligation Bonds	\$ 1,132,500
Special Assessment Improvement Bonds	9,330,000
Public Facility Lease Revenue Bonds	1,185,000
Subtotal	11,647,500
Less: Issuance Discounts	(21,909)
Total Bonds Payable	\$ 11,625,591

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

Capital Assets and Debt Administration (Continued)

Long-Term Debt (Continued)

The City's total debt increased by approximately \$797,633. The City's Equipment Certificates were paid off in 2006 and the City issued \$1,630,000 of General Obligation Special Assessment Improvement Bonds during the year. The City also entered into contracts payable of \$896,000 relating to the purchase of industrial park land and \$34,670 in new capital leases.

The City of Brainerd maintained its A2 rating from Moody's on all of its general obligation debt.

State statutes limit the amount of general obligation debt a Minnesota city may issue to 2% of total Estimated Market Value. The current debt limitation for the City of Brainerd is \$13,427,632. \$1,132,500 of the City's outstanding debt is counted against the statutory limitation as the debt is wholly financed by general tax levy.

Additional information on the City's long-term debt can be found in Note 3 beginning on page 59 of this report.

Economic Factors and Next Year's Budgets and Rates

The City of Brainerd continues to see increased residential growth. In 2006, the City's total estimated market value increased by 14.06%.

Property tax reforms and budget deficits at the state level significantly impacted government aid payments made to the City in the past. Brainerd state aid payments remained the same in 2003 and 2004. They increased \$250,000 in 2005 and another \$280,000 in 2006. However, in 2007, local government aid is anticipated to decrease by \$115,000.

Interest rates are starting a slow upturn over the past few years, and consequently the City's investment earnings are starting to show an increase.

All of these factors were considered when preparing the City of Brainerd's 2007 fiscal year budget, with final City Council action leaving the tax rate the same for 2007 as it was in 2006.

Requests for Information

This financial report is designed to provide a general overview of the City of Brainerd's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the office of the City Finance Director, 501 Laurel Street, Brainerd MN 56401.

BASIC FINANCIAL STATEMENTS

CITY OF BRAINERD, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 6,601,921	\$ -	\$ 6,601,921
Receivables			
Taxes	123,660	-	123,660
Accounts	140,516	55,330	195,846
Special Assessments	3,847,210	-	3,847,210
Accrued Interest	34,746	-	34,746
Loans (Net of Allowances for Uncollectibles)	1,137,752	-	1,137,752
Due from Other Governments	125,759	-	125,759
Due from Component Units	99,112	8,891	108,003
Due from Related Entity	-	-	-
Internal Balances	332,967	(332,967)	-
Inventory	-	-	-
Prepayments	-	-	-
Deferred Charges, Net of Amortization	40,452	-	40,452
Restricted Assets			
Cash and Investments	107,236	-	107,236
Interest	-	-	-
Land and Homes Held for Resale	1,957,866	-	1,957,866
Service Territory Acquisitions, Net of Amortization	-	-	-
Capital Assets			
Land and Construction In Progress	2,592,769	90,400	2,683,169
Other Capital Assets, Net of Depreciation	35,974,889	1,269,597	37,244,486
Total Assets	<u>53,116,855</u>	<u>1,091,251</u>	<u>54,208,106</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	454,937	31,186	486,123
Short-Term Borrowing	-	-	-
Accrued Liabilities	100,334	2,668	103,002
Deposits Payable	17,660	-	17,660
Accrued Interest Payable	152,930	-	152,930
Customer Deposits	-	-	-
Deferred Revenue	-	-	-
Due to Other Governments	8,456	-	8,456
Due to Primary Government	-	-	-
Contracts Payable	38,234	-	38,234
Long-Term Liabilities			
Due within One Year	1,564,564	4,149	1,568,713
Due in More than One Year	11,956,049	13,115	11,969,164
Total Liabilities	<u>14,293,164</u>	<u>51,118</u>	<u>14,344,282</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt Restricted for Renewal and Replacement	26,265,720	1,359,997	27,625,717
Restricted for Debt Service	5,336,374	-	5,336,374
Unrestricted	7,221,597	(319,864)	6,901,733
Total Net Assets	<u>\$ 38,823,691</u>	<u>\$ 1,040,133</u>	<u>\$ 39,863,824</u>

See accompanying Notes to Financial Statements.

Component Units

Brainerd Public Library	Brainerd - Crow Wing County Regional Airport	Brainerd Public Utilities	Housing and Redevelopment Authority of Brainerd
\$ 197,061	\$ 1,630,436	\$ 5,273,774	\$ 439,043
5,332	-	-	-
1,068	5,874	1,551,362	27,577
-	-	-	-
403	3,508	-	-
-	-	-	-
-	831,644	-	29,997
-	-	-	-
-	-	-	64,216
-	-	-	-
-	-	845,463	-
-	-	121,500	42,034
-	-	-	16,568
-	-	531,212	118,980
-	-	76,249	-
-	-	-	5,257,631
-	-	72,776	-
9,041	21,807,677	1,960,490	423,193
770,488	7,932,433	22,347,762	4,231,479
<u>983,393</u>	<u>32,211,572</u>	<u>32,780,588</u>	<u>10,650,718</u>
3,649	9,585	1,020,923	73,568
-	-	-	250,000
-	6,387	362,462	45,846
-	-	-	-
-	-	-	89,144
-	-	164,684	49,203
-	1,553	-	-
-	-	-	220,047
-	-	105,197	2,806
-	982,693	-	97,085
-	60,530	25,000	4,977,358
-	241,186	668,442	1,832,744
<u>3,649</u>	<u>1,301,934</u>	<u>2,346,708</u>	<u>7,637,801</u>
779,529	29,591,108	24,133,252	4,295,489
-	-	105,197	-
-	-	-	-
200,215	1,318,530	6,195,431	(1,282,572)
<u>\$ 979,744</u>	<u>\$ 30,909,638</u>	<u>\$ 30,433,880</u>	<u>\$ 3,012,917</u>

**CITY OF BRAINERD, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 2,191,293	\$ 600,198	\$ -	\$ -
Public Safety	4,669,866	1,063,909	357,590	-
Public Works	4,303,971	1,364,210	664,168	2,462,159
Culture and Recreation	1,013,141	222,847	2,681	22,811
Economic Development	1,005,084	166,334	-	-
Interest on Long-Term Debt	437,108	-	-	-
Total Governmental Activities	<u>13,620,463</u>	<u>3,417,498</u>	<u>1,024,439</u>	<u>2,484,970</u>
Business-Type Activities				
Arena	488,589	354,687	99,694	-
Total Primary Government	<u>\$ 14,109,052</u>	<u>\$ 3,772,185</u>	<u>\$ 1,124,133</u>	<u>\$ 2,484,970</u>
Component Units				
Brainerd Public Library	\$ 227,200	\$ 21,326	\$ 17,188	\$ -
Brainerd - Crow Wing County				
Regional Airport	1,586,517	475,203	484,613	4,701,991
Brainerd Public Utilities	17,730,722	18,412,669	-	309,120
Housing and Redevelopment Authority of Brainerd	3,904,599	735,383	1,313,160	314,894
Total Component Units	<u>\$ 23,449,038</u>	<u>\$ 19,644,581</u>	<u>\$ 1,814,961</u>	<u>\$ 5,326,005</u>
General Revenues				
Taxes				
Property Taxes, Levied for General Purpose				
Franchise Fees				
Grants and Contributions not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Gain on Sale of Capital Assets				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning of Year				
Net Assets - End of Year				

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Brainerd Public Library	Brainerd - Crow Wing County Regional Airport	Brainerd Public Utilities	Housing and Redevelopment Authority of Brainerd
\$ (1,591,095)	\$ -	\$ (1,591,095)	\$ -	\$ -	\$ -	\$ -
(3,248,367)	-	(3,248,367)	-	-	-	-
186,566	-	186,566	-	-	-	-
(764,802)	-	(764,802)	-	-	-	-
(838,750)	-	(838,750)	-	-	-	-
(437,108)	-	(437,108)	-	-	-	-
<u>(6,693,556)</u>	<u>-</u>	<u>(6,693,556)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	(34,208)	(34,208)	-	-	-	-
<u>(6,693,556)</u>	<u>(34,208)</u>	<u>(6,727,764)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	(188,686)	-	-	-
-	-	-	-	4,075,290	-	-
-	-	-	-	-	991,067	-
-	-	-	-	-	-	(1,541,162)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(188,686)</u>	<u>4,075,290</u>	<u>991,067</u>	<u>(1,541,162)</u>
3,355,375	-	3,355,375	126,954	-	-	87,719
106,462	-	106,462	-	-	-	-
5,201,828	-	5,201,828	-	-	-	9,118
262,316	-	262,316	6,674	66,963	254,122	21,701
4,059	558	4,617	-	-	(5,009)	557
217,823	-	217,823	2,431	-	-	188,040
<u>9,147,863</u>	<u>558</u>	<u>9,148,421</u>	<u>136,059</u>	<u>66,963</u>	<u>249,113</u>	<u>307,135</u>
2,454,307	(33,650)	2,420,657	(52,627)	4,142,253	1,240,180	(1,234,027)
36,369,384	1,073,783	37,443,167	1,032,371	26,767,385	29,193,700	4,246,944
<u>\$ 38,823,691</u>	<u>\$ 1,040,133</u>	<u>\$ 39,863,824</u>	<u>\$ 979,744</u>	<u>\$ 30,909,638</u>	<u>\$ 30,433,880</u>	<u>\$ 3,012,917</u>

**CITY OF BRAINERD, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	GENERAL FUND	PUBLIC SAFETY FUND	REVOLVING LOANS FUND	DEBT SERVICE FUND
ASSETS				
Cash and Investments	\$ 2,227,905	\$ -	\$ 608,187	\$ 1,738,991
Receivables				
Taxes	64,459	2,470	-	24,699
Accounts	88,248	5,027	-	-
Special Assessments	-	-	-	3,436,822
Accrued Interest	13,007	-	1,022	28,626
Loans (Net of Allowances for Uncollectibles)	-	-	1,137,752	-
Due From Other Funds	403,884	-	-	-
Due From Other Governments	-	41,143	-	-
Due From Component Unit	6,889	4,659	-	-
Advances to Other Funds	289,543	-	-	-
Restricted Cash and Investments	-	-	-	107,236
Land Held for Resale	-	-	-	-
Total Assets	\$ 3,093,935	\$ 53,299	\$ 1,746,961	\$ 5,336,374
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 27,617	\$ 25,381	\$ 6,172	\$ -
Contracts Payable	-	-	-	-
Accrued Liabilities	4,925	69,532	-	-
Deposit Payable	-	-	-	-
Deferred Revenue	40,464	1,432	1,137,753	3,437,630
Due to Other Funds	-	72,801	-	-
Due to Other Governments	-	8,456	-	-
Total Liabilities	73,006	177,602	1,143,925	3,437,630
Fund Balances				
Reserved for				
Debt Retirement	-	-	-	1,898,744
Unreserved, Designated for				
Working Capital	3,020,929	-	-	-
Unreserved, Undesignated Reported in				
Special Revenue Funds	-	(124,303)	603,036	-
Capital Projects Funds	-	-	-	-
Total Fund Balances	3,020,929	(124,303)	603,036	1,898,744
Total Liabilities and Fund Balances	\$ 3,093,935	\$ 53,299	\$ 1,746,961	\$ 5,336,374

See accompanying Notes to Financial Statements.

CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ 1,967,865	\$ 6,542,948
-	32,032	123,660
-	16,794	110,069
397,058	13,330	3,847,210
779	3,340	46,774
-	-	1,137,752
-	-	403,884
-	84,616	125,759
-	87,564	99,112
-	-	289,543
-	-	107,236
-	1,957,866	1,957,866
<u>\$ 397,837</u>	<u>\$ 4,163,407</u>	<u>\$ 14,791,813</u>

\$ 305,175	\$ 90,592	\$ 454,937
38,234	-	38,234
2,830	23,047	100,334
-	17,660	17,660
395,469	1,990,705	7,003,453
292,132	8,027	372,960
-	-	8,456
<u>1,033,840</u>	<u>2,130,031</u>	<u>7,996,034</u>
-	-	1,898,744
-	-	3,020,929
-	2,033,376	2,512,109
(636,003)	-	(636,003)
<u>(636,003)</u>	<u>2,033,376</u>	<u>6,795,779</u>
<u>\$ 397,837</u>	<u>\$ 4,163,407</u>	<u>\$ 14,791,813</u>

**CITY OF BRAINERD, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Total Fund Balances for Governmental Funds \$ 6,795,779

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 1,729,541	
Construction in Progress	863,228	
Land Improvements, Net of \$99,139 Accumulated Depreciation	204,952	
Buildings, Net of \$1,519,909 Accumulated Depreciation	5,281,960	
Improvements Other than Buildings, Net of \$2,762,567 Accumulated Depreciation	1,111,730	
Machinery and Equipment, Net of \$2,680,313 Accumulated Depreciation	1,227,951	
Infrastructure, Net of \$10,275,708 Accumulated Depreciation	27,451,103	
Motor Vehicles, Net of \$956,475 Accumulated Depreciation	511,315	
Office Equipment, Net of \$205,954 Accumulated Depreciation	<u>185,878</u>	38,567,658

Some of the City's property taxes, special assessments, notes, and sales of land held for resale will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the governmental funds. 7,003,453

Net assets held in Internal Service funds are included in the statement of net assets. 89,894

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net assets. (152,930)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets.

Bonds Payable	(11,647,500)	
Unamortized Discounts and Issuance Costs	62,360	
Obligations Under Capital Leases	(31,509)	
Long-Term Contracts Payable	(716,800)	
Compensated Absences Payable	<u>(1,146,714)</u>	<u>(13,480,163)</u>

Total Net Assets of Governmental Activities \$ 38,823,691

CITY OF BRAINERD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2006

	GENERAL FUND	PUBLIC SAFETY FUND	REVOLVING LOANS FUND
REVENUES			
Taxes	\$ 1,643,942	\$ 57,438	\$ -
Tax Increments	-	-	-
Licenses and Permits	337,136	-	-
Intergovernmental	4,193,507	405,274	-
Charges for Services	19,181	598,130	-
Fines and Forfeits	-	297,886	-
Special Assessments	-	-	-
Interest	92,592	-	23,012
Sale of Land Held for Resale	-	-	-
Miscellaneous	253,938	54,310	209,717
Total Revenues	<u>6,540,296</u>	<u>1,413,038</u>	<u>232,729</u>
EXPENDITURES			
Current			
General Government	2,037,938	-	-
Public Safety	-	4,422,179	-
Public Works	-	-	-
Culture and Recreation	-	-	-
Economic Development	-	-	286,446
Capital Outlay	-	-	-
Debt Service			
Principal Retirement	3,161	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>2,041,099</u>	<u>4,422,179</u>	<u>286,446</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,499,197	(3,009,141)	(53,717)
OTHER FINANCING SOURCES (USES)			
Proceeds from Capital Lease	34,670	-	-
Proceeds from Issuance of Debt	-	-	-
Sale of Capital Assets	33	2,359	-
Transfers In	-	2,983,943	-
Transfers Out	(4,325,714)	(52,500)	-
Total Other Financing Sources (Uses)	<u>(4,291,011)</u>	<u>2,933,802</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	208,186	(75,339)	(53,717)
Fund Balances - Beginning of Year	<u>2,812,743</u>	<u>(48,964)</u>	<u>656,753</u>
FUND BALANCES - END OF YEAR	<u>\$ 3,020,929</u>	<u>\$ (124,303)</u>	<u>\$ 603,036</u>

See accompanying Notes to Financial Statements.

DEBT SERVICE FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 573,327	\$ 793	\$ 741,493	\$ 3,016,993
-	-	452,553	452,553
-	-	-	337,136
60,623	1,348,496	855,825	6,863,725
-	-	1,031,477	1,648,788
-	-	74,155	372,041
443,240	124,219	4,092	571,551
65,347	12,684	66,236	259,871
-	-	41,200	41,200
-	29,480	606,514	1,153,959
<u>1,142,537</u>	<u>1,515,672</u>	<u>3,873,545</u>	<u>14,717,817</u>
-	-	134,092	2,172,030
-	-	25,980	4,448,159
-	-	2,378,538	2,378,538
-	-	918,144	918,144
-	-	1,514,403	1,800,849
-	4,153,631	126,097	4,279,728
1,468,975	-	372,416	1,844,552
416,142	-	15,247	431,389
<u>1,885,117</u>	<u>4,153,631</u>	<u>5,484,917</u>	<u>18,273,389</u>
(742,580)	(2,637,959)	(1,611,372)	(3,555,572)
-	-	-	34,670
-	1,630,000	896,000	2,526,000
-	-	5,043	7,435
232,645	430,040	1,243,043	4,889,671
-	(31,847)	(479,610)	(4,889,671)
<u>232,645</u>	<u>2,028,193</u>	<u>1,664,476</u>	<u>2,568,105</u>
(509,935)	(609,766)	53,104	(987,467)
<u>2,408,679</u>	<u>(26,237)</u>	<u>1,980,272</u>	<u>7,783,246</u>
<u>\$ 1,898,744</u>	<u>\$ (636,003)</u>	<u>\$ 2,033,376</u>	<u>\$ 6,795,779</u>

CITY OF BRAINERD, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (987,467)

Amounts reported for governmental activities in the statement of activities are different because:

Capital Outlay	\$ 4,208,746	
Depreciation Expense	<u>(1,821,537)</u>	2,387,209

Capital assets contributed to a component unit are recorded as expenses in the statement of activities. The expense is not recorded at the fund level because governmental funds do not report the capital assets being reassigned. (309,121)

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Principal payments of capital leases are reported as expenditures in the governmental funds. In the statement of net assets, however, the repayment of principal reduces the liability.

Other Financing Source - Capital Lease Proceeds	(34,670)	
Principal Payments of Capital Leases	<u>3,161</u>	(31,509)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Also, governmental funds report the effect of issuance costs, premiums, and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities however, interest expense is recognized as it accrues. The effect of these items is as follows:

Bond Proceeds	(1,630,000)	
Repayment of Debt Principal	1,841,391	
Change in Accrued Interest	(323)	
Contracts Payable Proceeds	(896,000)	
Amortization of Bond Issuance Costs	(5,021)	
Amortization of Bond Discount	1,021	
Issuance Costs	25,750	
Issuance Discount	<u>13,855</u>	

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (4,731)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. Essentially, the amounts actually paid. During 2006, compensated absences payable increased. (95,919)

Delinquent and deferred property taxes, special assessments, notes receivable and sales of land held for resale will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds.

Deferred Revenue - December 31, 2005	4,852,939	
Deferred Revenue - December 31, 2006	<u>7,003,453</u>	2,150,514

Internal service funds are used by management to charge the costs of health insurance costs to individual funds. The net revenue of certain activities of internal service funds is reported in governmental activities. (5,342)

Change in Net Assets of Governmental Activities \$ 2,454,307

See accompanying Notes to Financial Statements.

**CITY OF BRAINERD, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006**

	<u>Business-Type Activities - Arena Enterprise Fund</u>	<u>Governmental Activities - Internal Service Fund</u>
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ -	\$ 58,973
Accrued Interest Receivable	-	472
Accounts Receivable	55,330	30,447
Due From Component Unit	8,891	-
Total Current Assets	64,221	89,892
CAPITAL ASSETS		
Land	90,400	-
Buildings and Improvements	1,593,549	-
Machinery and Equipment	412,035	-
Total Capital Assets	2,095,984	-
Less: Accumulated Depreciation	(735,987)	-
Net Capital Assets	1,359,997	-
Total Assets	1,424,218	89,892
LIABILITIES		
CURRENT LIABILITIES		
Current Portion of Advance from Other Funds	39,543	-
Accounts Payable	31,186	-
Accrued Liabilities	2,668	-
Accrued Compensated Absences	4,149	-
Accrued Interest Payable	12,500	-
Due to Other Funds	30,924	-
Total Current Liabilities	120,970	-
LONG-TERM LIABILITIES		
Advance from Other Funds	250,000	-
Accrued Compensated Absences	13,115	-
Total Long-Term Liabilities	263,115	-
Total Liabilities	384,085	-
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,359,997	-
Unrestricted	(319,864)	89,892
Total Net Assets	\$ 1,040,133	\$ 89,892

See accompanying Notes to Financial Statements.

CITY OF BRAINERD, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2006

	<u>Business-Type Activities - Arena Enterprise Fund</u>	<u>Governmental Activities - Internal Service Fund</u>
OPERATING REVENUES		
Charges for Services	\$ 354,687	\$ 834,033
Other Revenue	<u>99,694</u>	<u>-</u>
Total Operating Revenues	454,381	834,033
OPERATING EXPENSES		
Personal Services	186,862	-
Other Services and Supplies	203,244	841,820
Depreciation	<u>86,352</u>	<u>-</u>
Total Operating Expenses	<u>476,458</u>	<u>841,820</u>
OPERATING INCOME (LOSS)	(22,077)	(7,787)
NONOPERATING REVENUES (EXPENSES)		
Interest Income	-	2,445
Interest Expense	(12,131)	-
Gain on Disposal of Capital Assets	<u>558</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(11,573)</u>	<u>2,445</u>
INCOME (LOSS) BEFORE TRANSFERS	(33,650)	(5,342)
Transfers In	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(33,650)	(5,342)
Net Assets - Beginning of Year	<u>1,073,783</u>	<u>95,234</u>
NET ASSETS - END OF YEAR	<u>\$ 1,040,133</u>	<u>\$ 89,892</u>

See accompanying Notes to Financial Statements.

**CITY OF BRAINERD, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2006**

	Business-Type Activities - Arena Enterprise Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 324,131	\$ 803,586
Cash Received from Other Sources	101,091	-
Cash Payments to Employees for Services	(170,999)	
Cash Payments to Other Suppliers of Goods or Services	(205,003)	(845,165)
Net Cash Provided (Used) by Operating Activities	49,220	(41,579)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Increase in Due to Other Funds	10,204	-
Interest Payments on Interfund Debt	(2,130)	-
Net Cash Provided by Noncapital Financing Activities	8,074	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Sale of Capital Assets	558	-
Decrease in Advances from Other Funds	(57,852)	-
Net Cash Used by Capital and Related Financing Activities	(57,294)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	-	1,973
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	(39,606)
Cash and Cash Equivalents - Beginning of Year	-	98,579
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ -	\$ 58,973

See accompanying Notes to Financial Statements.

**CITY OF BRAINERD, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2006**

	Business-Type Activities - Arena Enterprise Fund	Governmental Activities - Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (22,077)	\$ (7,787)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	86,352	-
(Increase) Decrease In Assets		
Accounts Receivable	(30,556)	(30,447)
Due from Component Units	1,397	-
Increase (Decrease) in Liabilities		
Accounts Payable	15,863	(3,345)
Accrued Liabilities	(189)	-
Accrued Compensated Absences	(1,570)	-
	<u>\$ 49,220</u>	<u>\$ (41,579)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 49,220</u>	<u>\$ (41,579)</u>

See accompanying Notes to Financial Statements.

CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the City of Brainerd, Minnesota conform to generally accepted accounting principles (GAAP) as applied to governmental entities. The following notes to the financial statements are an integral part of the City's Comprehensive Annual Financial Report.

A. Financial Reporting Entity

The City was incorporated under the laws of the state of Minnesota and operates under an elected Mayor-Council form of government. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Component Units

Component units are legally separate entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefits or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Units

The Economic Development Authority (EDA) has been blended in this report since members to this board are appointed by the mayor and approved by the City Council. The members of the EDA board act as an advisory board to the Council, which is the governing board of the EDA. Additionally, the City provides a material portion of the EDA's annual operating budget and the EDA provides services entirely to the City. The EDA is reported as a nonmajor special revenue fund.

Discretely Presented Component Units

The component unit columns in the combined financial statements include the financial data of the City's discretely presented component units. These component units are reported in a separate column to emphasize that they are legally separate from the City.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Component Units (Continued)

Discretely Presented Component Units (Continued)

1. Brainerd Public Library

The members of the governing board of the Library are appointed by the Mayor and approved by the City Council. The Library requests tax levy revenue from the City each year since the Library does not have the authority to levy its own tax. The tax levy request and any bonded debt must be approved by the City Council. Separate financial statements have not been issued.

2. Brainerd Lakes Regional Airport

The Airport is a joint venture between the City and Crow Wing County. The City Council and the Crow Wing County Board of Commissioners each appoint three members of the Airport Commission. The City does have the authority to approve or modify the airport's operational and capital budgets and any bonded debt must be approved by the City Council. The City pledges its full faith and credit for its share for the airport's bonded indebtedness and provides a material portion of its annual operating budget. Separate financial statements have not been issued. See Note 5 for additional information on the Airport.

3. Brainerd Public Utilities (BPU)

BPU includes the operations of the electric, water, and wastewater departments and is governed by a five-member Board of Commissioners, appointed by the Mayor and approved by the City Council to serve five year terms. The City does have the authority to approve or modify BPU's operational and capital budgets and any bonded debt must be approved by the City Council.

Complete financial statements of the Utilities can be obtained from the Brainerd Public Utilities, P.O. Box 373, Brainerd, Minnesota 56401

4. Housing and Redevelopment Authority of Brainerd (HRA)

The members of the governing board of the HRA are appointed by the Mayor and approved by the City Council. The HRA requests tax levy revenue from the City each year since the HRA does not have the authority to levy its own tax. The tax levy request and any bonded debt must be approved by the City Council.

Complete financial statements of the HRA can be obtained from the Housing and Redevelopment Authority of Brainerd, 324 East River Road, Brainerd, Minnesota 56401.

CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Other Organizations

The Brainerd Fire Department Relief Association is organized as a nonprofit organization, legally separate from the City, by its members to provide pension and other benefits to its members in accordance with Minnesota Statutes. The membership appoints the board of this Association, and separate financial statements are issued for this Association. All funding is conducted in accordance with Minnesota Statutes. Although the City levies property taxes for the Association, this Association is fiscally independent to determine and levy taxes. The City's portion of the costs of the Association's pension benefits is included in the Public Safety Fund. The Association does not have any significant operational or financial relationship with the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the primary government and its component units. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Franchise fees are also shown as general revenues as they are based on the gross receipts of the related services.

Separate financial statements are provided for governmental funds and proprietary funds. The City has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

Public Safety Fund – The Public Safety Fund accounts for the operations and maintenance of the fire, police, and other public safety functions of the City.

Revolving Loans Fund – This fund is used to account for the various revolving loans maintained by the City, including residential and commercial loans.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs of governmental funds.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary fund).

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The City reports the following major proprietary fund:

Arena Fund – The Arena Fund accounts for the activities of the City's arena.

Additionally, the City reports an internal service fund to account for the health and package insurance provided to other departments of the City on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes other charges between the various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenue of the City's proprietary funds are charges to customers for sales of goods and services. Operating expenses for the 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 the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments (Including Cash Equivalents)

Cash balances from all funds (including cash equivalents) are pooled and invested to the extent available in various securities as authorized by Minnesota Statutes. Investments are stated at fair value. Investment earnings are allocated to all funds on the basis of average cash balance.

For the purpose of the Statement of Cash Flows of the proprietary funds, cash equivalents are defined as short-term, highly liquid investments with an original maturity from the time of purchase of three months or less.

The City's policy considers cash equivalents to be those that meet the above criteria and have original maturities of three months or less.

Cash and cash equivalents consist of checking and savings certificate accounts and cash on hand.

2. Taxes Receivable

Taxes which remain unpaid are classified as delinquent taxes receivable. Delinquent taxes represent the past seven years of uncollected tax years. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the City in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Property Tax Collection Calendar

The City levies its property tax for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. Crow Wing County is the collecting agency for the levy and then remits the collections to the City. All taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The county auditor makes up the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The county auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The county auditor turns over a list of taxes and special assessments to be collected on each parcel of property to the county treasurer in January of each year.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Taxes Receivable (Continued)

Property Tax Collection Calendar (Continued)

Property owners are required to pay one-half of their real estate taxes by May 15 and the balance by October 15.

Within 30 days after the May settlement, the county treasurer is required to pay 70 percent of the estimated collections of taxes and special assessments to the City treasurer. The county treasurer must pay the balance to the city treasurer within 60 days after settlement, provided that after 45 days interest begins to accrue.

Within ten business days after November 15, the county treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

3. Accounts Receivable

No substantial losses are anticipated from present receivable balances, therefore, no allowances for uncollectible accounts are deemed necessary.

4. Special Assessments Receivable

Special assessments receivable are levied against the benefited properties for the assessable costs of improvement projects in accordance with Minnesota Statutes. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Any annual installments remaining unpaid as of November 30th of each year are certified to the County for collection with property taxes during the following year. Property owners are allowed to prepay future installments without interest or prepayment penalties.

In the governmental fund financial statements, special assessment levies are recorded as a receivable and as deferred revenue at the time of the levy. Deferred revenue is recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

Delinquent special assessments represent the past seven years of uncollected special assessments that have not been collected within 60 days of year end. Significant portions of special assessments receivable are not expected to be collected within one year.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

5. Due from Other Governments

Amounts due from other governments is composed primarily of state and federal grants and aids for which the City has spent or will be incurring costs for the various grant purposes.

6. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

7. Inventories

Inventory for the BPU consists of supplies and replacement parts for the water and electrical distribution system. Inventory is valued using a moving average cost method.

8. Restricted Assets

The BPU, based on certain grant agreements, is required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments) that can be used for plant replacement. Also, amounts have been set aside for customer deposits and compensated absences.

The HRA reports restricted cash and investments for proceeds of a revenue bond issue that are restricted for use in developing land held for resale.

9. Land and Homes Held for Resale

Land and homes held for resale represents land acquired by the primary government or HRA for subsequent resale for redevelopment purposes. Land and homes held for resale is reported at the lower of cost or estimated realizable value.

10. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost greater than a range of \$1,000 to \$5,000 (depending on the type of capital asset) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. Capital Assets (Continued)

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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20
Buildings and Improvements	5-20
Machinery and Equipment	3-20
Furniture and Fixtures	5-15
Vehicles	3-20
Infrastructure	20-40

11. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay allowable is accrued when incurred in the government-wide and proprietary statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The current portion for vacation pay is calculated based on historical trends. For governmental activities, compensated absences are generally liquidated by the General, Public Safety, and Street and Sewer Funds.

12. Long-Term Obligations

In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

12. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

13. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Budget requests are submitted by all department heads to the City Administrator. The Administrator's office compiles the budget requests into an overall preliminary City budget, balancing budget requests with available revenue.
2. The preliminary budget is submitted to the Personnel and Finance Committee of the City Council for their review and/or modification.
3. The City administration presents the proposed budget to the City Council which in turn holds a truth-in-taxation public hearing on the proposed budget. The budget resolution adopted by the City Council sets forth the budget at the fund level for the General Fund, and certain special revenue and capital projects funds.
4. Management is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Reported budget amounts are as originally adopted or amended by the City Council. Budget amendments for the year are deemed immaterial.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

5. The City has legally adopted budgets for the General Fund and these special revenue funds: Transit Fund, Drug and DUI Forfeiture Fund, Public Safety Fund, Recycling Fund, Park & Recreation Fund, Street & Sewer Fund, City Parking Lots Fund, Sanitary Sewer Fund, Storm Sewer Fund, Permanent Improvement Fund, Contingency Fund, Hydrant Rental Fund, Economic Development Fund, Housing and Redevelopment Authority Fund, and Capital Projects Fund. Expenditures may not legally exceed budgeted appropriations at the total fund level. All amounts over budget have been approved by the City Council through the disbursement process. The City is not required to legally adopt an annual budget for the Debt Service Fund and formal budgetary integration is not employed for Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
6. Budgets for the General Fund and certain special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. The City does not utilize encumbrances. Budget appropriations for all funds lapse at year end.

B. Expenditures in Excess of Appropriations

In the following fund, expenditures exceeded the appropriations during the year ended December 31, 2006:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures Over Appropriations</u>
General Fund	\$ 2,041,099	\$ 1,932,028	\$ 109,071

The above overages were considered by the City's management to be the result of necessary expenditures critical to operations and were approved by the Council.

C. Deficit Fund Balances

The following funds had deficit fund balances at December 31, 2006:

Primary Government

Special Revenue Funds	
Public Safety	\$ 124,303
Park and Recreation	8,229
Flexible Benefits Fund	8,027
Capital Projects Fund	636,003

The City plans to eliminate these deficits through future levies, special assessments, user fees and interfund transfers.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

**Cash and Investments – Primary Government and Library/Airport Component Units
(Pooled with Primary Government)**

1. Deposits

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the City maintains deposits at financial institutions which are authorized by the City Council.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. 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 departments of a commercial bank or other financial institution not owned or controlled by the depository.

The bank balance of City deposits at December 31, 2006 was \$7,367,366. Of this amount \$6,940,395 was covered by federal depository insurance, irrevocable standby letters of credit, or pledged collateral in accordance with Minnesota statutes and \$426,971 was uninsured and uncollateralized.

2. Investments

The City has an investment policy and is permitted to invest its idle funds as authorized by Minnesota Statutes as follows:

- ◆ Direct obligations or obligations guaranteed by the United States or its agencies.
- ◆ Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- ◆ General obligations rated "A" or better; revenue obligations rated "AA" or better.
- ◆ General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- ◆ Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

**Cash and Investments – Primary Government and Library/Airport Component Units
(Pooled with Primary Government) (Continued)**

2. Investments (Continued)

- ◆ Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- ◆ Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- ◆ Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

At December 31, 2006, the City had the following investments:

	Amortized Cost
Minnesota Municipal Money Market Fund	\$ 632,493
Minnesota Municipal Money Market Plus Fund	151,667
Total Investments	\$ 784,160

The Minnesota Municipal Money Market Fund Trust is a common law trust organized in accordance with the Minnesota Joint Powers Act, which invests only in investment instruments allowable under Minnesota Statutes as described on the previous page. Its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Minnesota Municipal Money Market Trust Fund does not have its own credit rating. MBIA, Inc., who administers the Minnesota Municipal Money Market Fund Trust, holds an organization credit rating of AA by Standard & Poor’s.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

Brainerd Public Utilities – Component Unit

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, 2006 by maturity:

Investment Type	Remaining Maturity (in Months)				Fair Value
	Less Than 1	1 - 5	6 - 10	11 - 15	
December 31, 2006					
FHLB	\$ -	\$ 1,243,503	\$ -	\$ 294,468	\$ 1,537,971
FHLM	-	195,568	-	-	195,568
FNMA	-	197,000	-	-	197,000
FFCB	-	297,468	292,968	-	590,436
Repurchase Agreement	1,270,362	-	-	-	1,270,362
Total	<u>\$ 1,270,362</u>	<u>\$ 1,933,539</u>	<u>\$ 292,968</u>	<u>\$ 294,468</u>	<u>\$ 3,791,337</u>

The repurchase agreement investment as of December 31, 2006 represents an ongoing overnight repurchase agreement arrangement at applicable daily quoted rates.

Funds are redeposited to BPU's bank account at 8:00 a.m. on the ensuing business day and the agreement is collateralized by federal or federal agency securities.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

Brainerd Public Utilities – Component Unit (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. The 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. Presented below is the minimum rating required by (where applicable) Minnesota Statutes, the BPU's investment policy, and the S&P credit ratings for BPU's investments as of December 31, 2006 are as follows:

<u>Investment Type</u>	<u>S & P Rating</u>	<u>% of Investments</u>
December 31, 2006		
FHLB	AAA	40.6%
FHLM	AAA	5.2%
FNMA	AAA	5.2%
FFCB	AAA	15.6%
Repurchase Agreement	Not Rated	33.5%

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 that represent 5% or more of total BPU investments as of December 31, 2006 are disclosed above.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

Brainerd Public Utilities – Component Unit (Continued)

Risk Disclosures (Continued)

Custodial Credit Risk

Investments

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

As of December 31, 2006 BPU has a custodial credit risk of \$1,270,362 because the repurchase agreement investment is uninsured, unregistered and held by BPU's primary bank which is also the counterparty for the repurchase agreement.

Housing and Redevelopment Authority of Brainerd – Component Unit

Investments Held in Escrow

The HRA has funds held in escrow at U.S. Bank relating to the Brainerd Oaks housing development. These funds are invested in the First American Prime Obligations Fund Class Y, a mutual fund investing in commercial paper, floating rate obligations, certificates of deposit and bank notes, funding agreements, Euro time deposits, corporate notes, repurchase agreements, and weekly variable rate demand notes. The average maturity of the investments of the fund is 40 days.

<u>Type</u>	<u>12 Months or Less</u>
Mutual Fund - First American Prime Obligations Fund Class Y	\$ 56,410

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The HRA does not have a formal investment policy which specifically addressed interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The First American Prime Obligations Fund Class Y is rated Aaa by Moody's Investor Service and AAAM by Standard and Poor's.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Interfund Receivables, Payables, and Transfers

At December 31, 2006, due from/to other funds were as follows:

	Due From			
Due To	Capital Projects Fund	Public Safety Fund	Arena Fund	Total
General Fund	\$ 292,132	\$ 72,801	\$ 30,924	\$ 395,857

These balances have resulted from working capital loans made from the General Fund which are expected to be collected in the subsequent year.

In addition, the General Fund made an advance to the Arena Fund during 2004. The balance at December 31, 2006 was \$39,543. The advance bears interest at 3%. \$39,543 is scheduled to be collected during 2007. The General Fund also made an advance to the Arena Fund during 2005. The balance at December 31, 2006 was \$250,000. Monthly payments commence December 1, 2007, including interest of 4%.

Interfund transfers for the year ended December 31, 2006 were as follows:

	Transfer In:				
	Primary Government				
	Public Safety Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Transfer Out:					
General Fund	\$2,983,943	\$ 100,798	\$ -	\$ 1,240,973	\$ 4,325,714
Public Safety Fund	-	-	52,500	-	52,500
Capital Projects Fund	-	31,847	-	-	31,847
Nonmajor Governmental Funds	-	100,000	377,540	2,070	479,610
Total	\$2,983,943	\$ 232,645	\$ 430,040	\$ 1,243,043	\$ 4,889,671

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move unrestricted general fund or special revenue fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Loans Receivable

The City had the following notes receivable as of December 31, 2006:

Special Revenue Funds

Revolving Loans Fund

Housing Revolving Loans

Developed in order to financially assist homeowners in the City with home repairs; Twenty-three loans ranging from \$700 to \$13,000 are outstanding for owner occupied, rental dwellings and revolving loan funds; due upon transfer or sale of property; no interest; secured by subordinate mortgages.

\$ 86,011

Commercial Revolving Loans

Brainerd Mobile, Inc.; 120 monthly payments of \$402, including interest at 6%; commencing March 1999, and ending April 2009; secured by property, equipment, and inventory.

41,598

Midwest Painting; 180 monthly payments of \$155, including interest at 6%; commencing July 1999 and ending June 2014; secured by property, equipment, and inventory.

11,032

Prestige Plating & Coating, Inc.; 59 monthly payments of \$800, including interest at 7%; commencing October 2000; followed by a balloon payment of \$18,589; secured by inventory, equipment, receivables, and a personal guarantee.

8,253

Russell and Herder Building Partnership; 60 monthly payments of \$458, including interest at 7%; commencing January 1997 and ending December 2006; terms renewed for an additional 60 months with interest rate of 7.99% and maturing December, 2011; secured by a subordinated mortgage and personal guarantee.

23,800

Borden, Steinbauer & Krueger, P.A.; 24 monthly payments of interest only at 7% commencing February 1998; followed by 95 monthly payments of \$202 commencing February 2000; followed by a balloon payment of \$19,652 in January 2008; secured by a subordinated mortgage and personal guarantee.

20,534

Earl and Jean Borkenhagen; 119 monthly payments of \$453, including interest at 7% commencing on July 2002; followed by a balloon payment of \$32,887 in June 2007; secured by a mortgage.

40,350

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Notes Receivable (Continued)

Special Revenue Funds (Continued)

Revolving Loans Fund (Continued)

Commercial Revolving Loans (Continued)

Jack's House; 24 monthly payments of interest only at 7% commencing October 2003, followed by 35 monthly payments of \$1,041 commencing October 2005; followed by a balloon payment of \$53,013 in September 2008.	\$ 65,973
Nor-Pak Industries; 84 monthly payments of \$356, including interest at 5.25% commencing on December 2003; followed by a balloon payment of \$15,683.	21,159
Wausau Paper of Minnesota, LLC; 4 quarterly payments of interest only followed by 20 quarterly payments of \$17,728; interest is at 2%; commencing January 2005, and ending October 2011. \$100,000 of the principal was forgiven since certain employment criteria were met by January 2006.	341,935
Plastics Plus; 60 monthly payments of \$1,887, including interest at 5% commencing in January 2006.	82,136
Great River Door; 119 monthly payments of \$662, including interest at 5% commencing November 2006. Last payment December 2016 of \$322; secured by a mortgage.	62,203
Total Commercial Revolving Loans	718,973

Small Cities Development Program (SCDP)

Developed in order to financially assist commercial and residential rehabilitation of the downtown area of the City. Loans are provided for commercial projects in three parts, (1) 1/3 loan at 3% to be repaid in up to 15 years, (2) 1/3 deferred loan at 10% (forgiven in 10 years if property remains under current ownership), (3) 1/3 private financing. Loans are provided for residential projects in two parts, (1) 1/2 loan at 3% to be repaid in up to 15 years, (2) 1/2 deferred loan (forgiven in 10 years if property remains under current ownership). The deferred loan portion for commercial and residential projects has not been recorded since management believes it is likely the deferred portion will be forgiven.

Total Special Revenue Funds	\$ 1,137,752
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The portion of the Small City Development Program loans which is required to be repaid only if the borrower sells the property within 10 years of date of loan (totaling \$213,244) has not been recorded as loans receivable at December 31, 2006, since management has determined that it is highly unlikely these properties will be sold within 10 years due to the terms of the loan agreements.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,686,364	\$ 43,177	\$ -	\$ 1,729,541
Construction in Progress	309,121	863,228	(309,121)	863,228
Total Capital Assets, Not Being Depreciated	<u>1,995,485</u>	<u>906,405</u>	<u>(309,121)</u>	<u>2,592,769</u>
Capital Assets, Being Depreciated				
Land Improvements	294,786	9,305	-	304,091
Buildings	6,649,658	152,211	-	6,801,869
Improvements Other Than Buildings	3,816,134	58,163	-	3,874,297
Machinery and Equipment	3,860,342	47,922	-	3,908,264
Infrastructure	34,975,151	2,751,660	-	37,726,811
Motor Vehicles	1,520,907	155,736	(208,853)	1,467,790
Office Equipment	329,897	127,386	(65,451)	391,832
Total Capital Assets, Being Depreciated	<u>51,446,875</u>	<u>3,302,383</u>	<u>(274,304)</u>	<u>54,474,954</u>
Less Accumulated Depreciation For				
Land Improvements	(88,786)	(10,353)	-	(99,139)
Buildings	(1,350,499)	(169,410)	-	(1,519,909)
Improvements Other Than Buildings	(2,631,003)	(131,564)	-	(2,762,567)
Machinery and Equipment	(2,424,419)	(255,894)	-	(2,680,313)
Infrastructure	(9,261,847)	(1,013,861)	-	(10,275,708)
Motor Vehicles	(971,721)	(193,607)	208,853	(956,475)
Office Equipment	(221,181)	(46,848)	62,075	(205,954)
Total Accumulated Depreciation	<u>(16,949,456)</u>	<u>(1,821,537)</u>	<u>270,928</u>	<u>(18,500,065)</u>
Total Capital Assets, Being Depreciated, Net	<u>34,497,419</u>	<u>1,480,846</u>	<u>(3,376)</u>	<u>35,974,889</u>
Governmental Activities Capital Assets, Net	<u>\$ 36,492,904</u>	<u>\$ 2,387,251</u>	<u>\$ (312,497)</u>	<u>\$ 38,567,658</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 90,400	\$ -	\$ -	\$ 90,400
Capital Assets, Being Depreciated				
Buildings	450,000	-	-	450,000
Improvements Other Than Buildings	1,143,549	-	-	1,143,549
Machinery and Equipment	424,833	-	(15,602)	409,231
Office Equipment	2,804	-	-	2,804
Total Capital Assets, Being Depreciated	<u>2,021,186</u>	<u>-</u>	<u>(15,602)</u>	<u>2,005,584</u>
Less Accumulated Depreciation For				
Buildings	(112,500)	(11,250)	-	(123,750)
Improvements Other Than Buildings	(356,298)	(43,746)	-	(400,044)
Machinery and Equipment	(194,148)	(31,077)	15,602	(209,623)
Office Equipment	(2,290)	(280)	-	(2,570)
Total Accumulated Depreciation	<u>(665,236)</u>	<u>(86,353)</u>	<u>15,602</u>	<u>(735,987)</u>
Total Capital Assets, Being Depreciated, Net	<u>1,355,950</u>	<u>(86,353)</u>	<u>-</u>	<u>1,269,597</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,446,350</u>	<u>\$ (86,353)</u>	<u>\$ -</u>	<u>\$ 1,359,997</u>

Depreciation Expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General Government	\$ 78,381
Public Safety	288,838
Public Works	1,373,368
Culture and Recreation	80,950
Total Depreciation Expense - Governmental Activities	<u>\$ 1,821,537</u>
Business-Type Activities	
Arena	<u>\$ 86,353</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

Capital asset activity for the Brainerd Public Library for the year ended December 31, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 9,041	\$ -	\$ -	\$ 9,041
Capital Assets, Being Depreciated				
Buildings	1,700,000	-	-	1,700,000
Improvements Other Than Buildings	39,308	-	-	39,308
Total Capital Assets, Being Depreciated	<u>1,739,308</u>	<u>-</u>	<u>-</u>	<u>1,739,308</u>
Less Accumulated Depreciation for				
Buildings	(906,667)	(42,500)	-	(949,167)
Improvements Other Than Buildings	(17,688)	(1,965)	-	(19,653)
Total Accumulated Depreciation	<u>(924,355)</u>	<u>(44,465)</u>	<u>-</u>	<u>(968,820)</u>
Total Capital Assets, Being Depreciated, Net	<u>814,953</u>	<u>(44,465)</u>	<u>-</u>	<u>770,488</u>
Component Unit - Library Capital Assets, Net	<u>\$ 823,994</u>	<u>\$ (44,465)</u>	<u>\$ -</u>	<u>\$ 779,529</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

Capital asset activity for the Brainerd-Crow Wing County Regional Airport for the year ended December 31, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 971,423	\$ -	\$ -	\$ 971,423
Construction in Progress	16,746,056	4,090,198	-	20,836,254
Total Capital Assets, Not Being Depreciated	17,717,479	4,090,198	-	21,807,677
Capital Assets, Being Depreciated				
Buildings	5,658,090	-	-	5,658,090
Improvements Other Than Buildings	1,680,385	4,870	-	1,685,255
Machinery and Equipment	2,376,615	521,380	-	2,897,995
Infrastructure	7,113,843	-	-	7,113,843
Motor Vehicles	24,315	-	-	24,315
Office Equipment	10,650	-	-	10,650
Total Capital Assets, Being Depreciated	22,760	526,250	-	17,390,148
Less Accumulated Depreciation For				
Buildings	(1,735,784)	(149,692)	-	(1,885,476)
Improvements Other Than Buildings	(818,992)	(88,413)	-	(907,405)
Machinery and Equipment	(1,093,498)	(257,467)	-	(1,350,965)
Infrastructure	(4,947,969)	(346,941)	-	(5,294,910)
Motor Vehicles	(5,877)	(2,432)	-	(8,309)
Office Equipment	(10,650)	-	-	(10,650)
Total Accumulated Depreciation	(8,612,770)	(844,945)	-	(9,457,715)
Total Capital Assets, Being Depreciated, Net	(8,590,010)	(318,695)	-	7,932,433
Component Unit - Airport Capital Assets, Net	<u>\$ 9,127,469</u>	<u>\$ 3,771,503</u>	<u>\$ -</u>	<u>\$ 29,740,110</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

Capital asset activity for the BPU for the year ended December 31, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ 287,967	\$ 2,369,645	\$ (697,122)	\$ 1,960,490
Capital Assets, Being Depreciated				
Electric	15,362,364	1,029,914	(60,554)	16,331,724
Water	10,927,879	656,027	(52,308)	11,531,598
Wastewater Treatment	12,687,713	132,855	(13,487)	12,807,081
General Plant	4,516,803	84,072	(1,673)	4,599,202
Total Capital Assets, Being Depreciated	43,494,759	1,902,868	(128,022)	45,269,605
Less Accumulated Depreciation For				
Electric	(7,778,050)	(678,207)	54,270	(8,401,987)
Water	(4,675,618)	(462,346)	49,017	(5,088,947)
Wastewater Treatment	(6,911,624)	(720,810)	11,294	(7,621,140)
General Plant	(1,604,258)	(206,515)	1,004	(1,809,769)
Total Accumulated Depreciation	(20,969,550)	(2,067,878)	115,585	(22,921,843)
Total Capital Assets, Being Depreciated, Net	22,525,209	(165,010)	(12,437)	22,347,762
Component Unit - BPU Capital Assets, Net	<u>\$ 22,813,176</u>	<u>\$ 2,204,635</u>	<u>\$ (709,559)</u>	<u>\$ 24,308,252</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

Capital asset activity for the HRA of Brainerd for the year ended December 31, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 299,262	\$ 123,931	\$ -	\$ 423,193
Construction in Progress	123,931	-	(123,931)	-
Total Capital Assets, Not Being Depreciated	423,193	123,931	(123,931)	423,193
Capital Assets, Being Depreciated				
Buildings and Improvements	9,779,432	209,243		9,988,675
Furniture, Fixtures and Equipment	604,071	22,100		626,171
Total Capital Assets, Being Depreciated	10,383,503	231,343	-	10,614,846
Less Accumulated Depreciation For				
Buildings and Improvements	(5,727,791)	(288,737)	-	(6,016,528)
Furniture, Fixtures and Equipment	(293,619)	(73,220)	-	(366,839)
Total Accumulated Depreciation	(6,021,410)	(361,957)	-	(6,383,367)
Total Capital Assets, Being Depreciated, Net	4,362,093	(130,614)	-	4,231,479
Component Unit - Brainerd HRA Capital Assets, Net	<u>\$ 4,785,286</u>	<u>\$ (6,683)</u>	<u>\$ (123,931)</u>	<u>\$ 4,654,672</u>

B. Liabilities

1. Short-Term Debt

Component Units

During 2006, the HRA entered into a \$250,000 short-term note agreement to finance cash flow needs relating to the Brainerd Oaks housing development project. The note bears variable interest (initial rate 8.25%) and matures September 15, 2007. The note is secured by a mortgage on the HRA's office building.

2. Long-Term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for economic development and for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for general government activities. In addition, general obligation bonds have been issued to refund general obligation bonds.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Long-Term Debt (Continued)

General Obligation Bonds (Continued)

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Special assessment improvement bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The armory bonds represent the City's 32.474% share of total bonds outstanding. The airport improvement bonds represent the City's 50% share of the total bonds outstanding.

General obligation bonds currently outstanding for the primary government are as follows:

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
BONDED INDEBTEDNESS			
PRIMARY GOVERNMENT			
GENERAL OBLIGATION BONDS			
Armory Bonds, Series 1988	8.00%	\$ 170,000	\$ 45,000
Airport Improvement Bonds, Series 2002A	3.50-5.00%	1,250,000	1,087,500
GENERAL OBLIGATION SPECIAL ASSESSMENT IMPROVEMENT BONDS			
Series 1996A	3.90-4.90%	615,000	60,000
Series 1997B	4.00-4.75%	335,000	60,000
Series 1999A	3.63-4.15%	320,000	90,000
Series 2000A	4.50-4.85%	790,000	370,000
Series 2001A	3.50-4.50%	1,300,000	760,000
Series 2002B	2.50-4.10%	1,205,000	840,000
Series 2003A	2.00-4.30%	4,225,000	3,485,000
Series 2003B	1.65-3.75%	1,075,000	920,000
Series 2004A	2.80-3.60%	1,210,000	1,115,000
Series 2006A	3.55-3.65%	1,630,000	1,630,000
GENERAL OBLIGATION REVENUE BONDS			
Public Facility Lease Revenue Bonds, Series 2002A	2.00-5.10%	1,300,000	1,185,000
Total Primary Government General Obligation Bonds		<u>\$ 15,425,000</u>	<u>\$ 11,647,500</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Long-Term Debt (Continued)

General Obligation Bonds (Continued)

The HRA issued public facility revenue bonds in 2002 to finance the acquisition of a capital facility. Scheduled future net revenues from operations are dedicated to the retirement of these bonds. The bond is further secured by a combination mortgage, security agreement, and fixture financing statement.

The HRA issued taxable revenue bonds in 2003 to provide for the acquisition and development of a housing project. Revenues from this development are dedicated to the retirement of these bonds. The bond is further secured by a combination mortgage, assignment of rents, security agreement, and fixture financing statement. No lot or home sales occurred in 2006. These bonds matured in December 2006. Interest payments relating to the outstanding debt were paid as scheduled through December, and the HRA entered into a formal forbearance agreement with the issuer.

However, the agreement expired in April 2007. No principal or interest has been paid relating to this debt in 2007, and the HRA is in default on the bonds. Total principal and accrued interest relating to this bond issue at December 31, 2006 is \$2,790,000 and \$13,950, respectively.

The HRA issued a taxable revenue note in 2005 to finance the construction of ten homes in the Brainerd Oaks housing development project. Revenues from this development are dedicated to the retirement of this note. The bond is further secured by a combination mortgage, assignment of rents, security agreement, and fixture financing statement. No lot or home sales occurred in 2006. This note matures in July 2007. The HRA was required to make monthly interest only payments on the outstanding balance of the note; however, no interest was paid for the last three months of 2006. The HRA is therefore in violation of the provisions of the debt agreement. Total principal and accrued interest relating to this bond issue at December 31, 2006 was \$2,156,749 and \$62,798, respectively.

The HRA approached the City of Brainerd (The HRA's primary government) with two separate proposals requesting the City back debt restructuring agreements relating to both the 2003 and 2005 bond issues. The City ultimately denied both of these requests, which left the HRA with no other option than to negotiate refinancing agreements directly with the creditors involved. At the time of these financial statements, no agreements have been reached. Neither bank has entered into formal foreclosure proceedings on the property that is financed by the debt. Due to a downturn in the real estate market, the fair value of the remaining lots and homes in the development decreased substantially. Accordingly, the value of the remaining inventory at December 31, 2006 was reduced to management's best estimate of actual realizable value based on an independent appraisal of the bare lots and estimated realizable sales figures for the eleven homes. The HRA did complete the sales of three homes in the Brainerd Oaks development in May and June 2007. The net proceeds relating to these sales were remitted to the appropriate creditors.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Long-Term Debt (Continued)

General Obligation Bonds (Continued)

The HRA issued a taxable tax increment note in 2005 to finance the redevelopment of a downtown commercial site. Future tax increment revenues will be used to retire the bonds, in addition to a conditional pledge of a portion of the HRA's special benefits taxes collected.

Revenue bonds currently outstanding for the component units (HRA) are as follows:

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
Public Facility Revenue Bonds, Series 2002B	5.50%	\$ 295,000	\$ 235,252
Taxable Revenue Bonds, Series 2003	5.00%	3,300,000	2,790,000
Taxable Revenue Bonds, Series 2005	Variable	2,156,749	2,156,749
Taxable Tax Increment Note, Series 2005	6.96%	<u>753,000</u>	<u>505,000</u>
Total Component Units		<u>\$ 6,504,749</u>	<u>\$ 5,687,001</u>

Other Long-Term Liabilities

Primary Government

The City entered into a contract for deed of \$696,000 to purchase land in 2006. The contract accrues interest 5% commencing August 2006 and required an initial payment of \$139,200 and five annual payments of \$128,607 commencing August 2007.

The City entered into a contract for deed of \$200,000 to purchase land in 2006. The contract accrues interest 5% and required an initial payment of \$40,000 and four annual payments of \$40,000 commencing 2007.

The City has two outstanding capital leases for equipment. In 2006, the City entered into a lease agreement as lessee for financing the acquisition of two copiers. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases, are as follows:

Equipment	\$ 34,670
Less: Accumulated Depreciation	<u>(6,356)</u>
Total	<u>\$ 28,314</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Long-Term Debt (Continued)

Other Long-Term Liabilities (Continued)

Primary Government (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

	2007		\$ 9,172
	2008		9,172
	2009		9,172
	2010		9,172
	2011		<u>1,527</u>
Total Minimum Lease Payments			<u>38,215</u>
Less: Amount Representing Interest			(6,706)
Present Value of Minimum Lease Payments			<u><u>\$ 31,509</u></u>

Component Units

The Airport entered into a hangar financing contract of \$162,896 with the Minnesota Department of Aeronautics for the construction of a ten unit 'T' hangar in 1998. The contract is interest free and requires 120 monthly payments of \$1,357 commencing in January 1999.

The Airport entered into a hangar financing contract of \$218,157 with the Minnesota Department of Aeronautics for the construction of an eleven unit 'T' hangar in 2004. The contract is interest free and requires 120 monthly installment payments of \$1,818 commencing in February 2005.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Long-Term Debt (Continued)

Other Long-Term Liabilities (Continued)

Component Units (Continued)

The BPU entered into a capital lease to purchase infrastructure. The 25-year lease totals \$250,000 payable in ten \$25,000 annual installments commencing in 2005. The lease bears no interest. Depreciation expense related to this asset for the year ended December 31, 2006 was \$13,279.

The HRA has long-term special assessments payable in connection with the Brainerd Oaks housing development. The special assessments payable are due as the HRA sells each individual parcel from its Housing Development Fund.

In 2005, the HRA borrowed \$155,000 from the Crow Wing County Housing and Redevelopment Authority as gap financing for the Brainerd Oaks Development ten homes project. The note bears interest at 5.50% with annual interest only payments and a final maturity in July, 2008. The HRA did not make the July 2006 interest payment, and the County HRA proposed to add the unpaid interest of \$8,525 to the outstanding principal balance. While the HRA has not formally accepted the County HRA's proposed agreement, these financial statements reflect this amount as part of the outstanding principal balance rather than as accrued interest. Total principal and accrued interest outstanding on this loan at December 31, 2006 was \$163,525 and \$12,984, respectively.

A summary of other long-term liabilities payable as of December 31, 2006 is as follows:

OTHER LONG-TERM DEBT OUTSTANDING:

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
PRIMARY GOVERNMENT			
Governmental Activities			
Contract Payable-Land	5.00%	\$ 696,000	\$ 556,800
Contract Payable-Land	5.00%	200,000	160,000
COMPONENT UNITS			
Airport			
Contract Payable - State of Minnesota	N/A	162,896	32,579
Contract Payable - State of Minnesota	N/A	218,157	154,528
BPU			
Capital Lease	N/A	250,000	175,000
HRA			
Crow Wing County HRA Note	N/A	155,000	163,525
Total Component Units		<u>786,053</u>	<u>525,632</u>
Total Reporting Entity		<u>\$ 1,682,053</u>	<u>\$ 1,242,432</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Long-Term Debt (Continued)

Other Long-Term Liabilities (Continued)

A summary of long-term debt transactions for the year ended December 31, 2006 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities					
General Obligation Bonds Payable					
General Obligation Bonds	\$ 1,195,475	\$ -	\$ 62,975	\$ 1,132,500	\$ 66,330
Equipment Certificates	236,000	-	236,000	-	-
Special Assessment Improvement Bonds	8,820,000	1,630,000	1,120,000	9,330,000	1,070,000
Public Facility Lease Revenue Bonds	1,235,000	-	50,000	1,185,000	50,000
Deferred Amounts - Issuance Discounts	(9,075)	(13,855)	(1,021)	(21,909)	
Total Bonds Payable	11,477,400	1,616,145	1,467,954	11,625,591	1,186,330
Capital Leases	-	34,670	3,161	31,509	5,980
Contracts Payable	193,216	896,000	372,416	716,800	140,767
Compensated Absences	1,050,795	537,551	441,632	1,146,714	231,487
Governmental Activity Long-Term Liabilities	<u>\$ 12,721,411</u>	<u>\$ 3,084,366</u>	<u>\$ 2,285,163</u>	<u>\$ 13,520,614</u>	<u>\$ 1,564,564</u>
Business-Type Activities					
Compensated Absences	<u>\$ 18,834</u>	<u>\$ 17,013</u>	<u>\$ 18,583</u>	<u>\$ 17,264</u>	<u>\$ 4,149</u>
Component Units					
Brainerd Crow Wing County					
Regional Airport					
Contracts Payable	\$ 238,845	\$ -	\$ 51,738	\$ 187,107	\$ 38,105
Compensated Absences	101,795	35,381	22,567	114,609	22,425
Brainerd Crow Wing County Regional Airport Long-Term Liabilities	<u>\$ 340,640</u>	<u>\$ 35,381</u>	<u>\$ 74,305</u>	<u>\$ 301,716</u>	<u>\$ 60,530</u>
Brainerd Public Utilities					
Capital Lease Obligations	\$ 200,000	\$ -	\$ 25,000	\$ 175,000	\$ 25,000
Compensated Absences	515,857	65,141	62,556	518,442	25,664
Brainerd Public Utilities Long-Term Liabilities	<u>\$ 715,857</u>	<u>\$ 65,141</u>	<u>\$ 87,556</u>	<u>\$ 693,442</u>	<u>\$ 50,664</u>
Housing and Redevelopment					
Authority of Brainerd					
Revenue Bonds Payable	\$ 5,097,876	\$ 604,464	\$ 15,339	\$ 5,687,001	\$ 4,963,195
Crow Wing County HRA Note	155,000	8,525	-	163,525	-
Special Assessments Payable	957,044	-	-	957,044	9,631
Developer Payable	24,979	-	24,979	-	-
Housing and Redevelopment Authority of Brainerd Long-Term Liabilities	<u>\$ 6,234,899</u>	<u>\$ 612,989</u>	<u>\$ 40,318</u>	<u>\$ 6,807,570</u>	<u>\$ 4,972,826</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Long-Term Debt (Continued)

Other Long-Term Liabilities (Continued)

Annual debt service requirements to maturity for general obligation bonds, contracts payable, and capital lease obligations of the Primary Government are as follows:

	General Obligation Bonds		Public Facilities Lease Revenue Bonds		
	Governmental Activities		Governmental Activities		
	Principal	Interest	Principal	Interest	
2007	\$ 66,330	\$ 52,330	2007	\$ 50,000	\$ 51,820
2008	69,742	49,624	2008	50,000	50,220
2009	73,928	46,634	2009	55,000	48,430
2010	57,500	43,349	2010	55,000	46,450
2011	62,500	41,048	2011	55,000	44,388
2012-2016	352,500	165,157	2012-2016	320,000	184,943
2017-2021	450,000	78,813	2017-2021	405,000	102,380
2022-2023	-	2,500	2022-2023	195,000	10,073
Total	<u>\$ 1,132,500</u>	<u>\$ 479,454</u>	Total	<u>\$ 1,185,000</u>	<u>\$ 538,703</u>

	General Obligation Special Assessment Improvement Bonds		Contracts Payable		
	Governmental Activities		Governmental Activities		
	Principal	Interest	Principal	Interest	
2007	\$ 1,070,000	\$ 295,672	2007	\$ 140,767	\$ 35,840
2008	1,115,000	283,003	2008	145,805	28,802
2009	1,120,000	245,116	2009	151,095	21,511
2010	1,085,000	205,921	2010	156,650	13,957
2011	1,080,000	166,576	2011	122,483	6,124
2012-2016	3,060,000	402,080	Total	<u>\$ 716,800</u>	<u>\$ 106,234</u>
2017-2021	800,000	44,096			
Total	<u>\$ 9,330,000</u>	<u>\$ 1,642,464</u>			

	Capital Leases	
	Governmental Activities	
	Principal	Interest
2007	\$ 6,600	\$ 2,572
2008	7,413	1,759
2009	7,534	1,638
2010	8,456	716
2011	1,506	21
Total	<u>\$ 31,509</u>	<u>\$ 6,706</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Long-Term Debt (Continued)

Other Long-Term Liabilities (Continued)

Annual debt service requirements to maturity for revenue bonds, contracts payable, and capital lease obligations of the component units are as follows:

<u>BPU</u>			<u>Airport</u>			<u>HRA</u>		
<u>Capital Lease Payable</u>			<u>Contracts Payable</u>			<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
2007	\$ 25,000	\$ -	2007	\$ 38,106	\$ -	2007	\$ 4,965,195	\$ 141,949
2008	25,000	-	2008	38,106	-	2008	21,373	46,489
2009	25,000	-	2009	21,816	-	2009	22,354	45,231
2010	25,000	-	2010	21,816	-	2010	25,389	43,883
2011	25,000	-	2011	21,816	-	2011	28,483	42,337
2012-2013	50,000	-	2012-2014	45,447	-	2012-2016	188,103	181,858
Total	<u>\$ 175,000</u>	<u>\$ -</u>	Total	<u>\$ 187,107</u>	<u>\$ -</u>	2017-2021	152,104	126,325
						2022-2026	225,000	66,919
						2027	59,000	3,097
						Total	<u>\$ 5,687,001</u>	<u>\$ 698,088</u>

The HRA's special assessments payable must be paid to the county at the time any of the HRA's land held for resale is sold.

3. Conduit Debt Obligations

Primary Government

The City has issued conduit debt to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage or lease. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City or the State, nor any political subdivisions thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

At December 31, 2006, the following conduit debt existed:

Industrial Revenue Bonds	<u>\$23,101,202</u>
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**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

3. Conduit Debt Obligation (Continued)

Component Units

The HRA issued conduit debt to provide financial assistance for the development and modernization of low-rent housing units and for the acquisition and construction of facilities deemed to be in the public interest. The bonds for the development and modernization of low-rent public housing units are payable by HUD and secured by annual contributions. The facilities bonds are payable solely from payments received on the underlying lease and do not constitute a general obligation of the HRA. Upon repayment of the facilities bonds, ownership of the facilities transfers to the entity served by the bond issuance. None of these bonds constitutes a debt of the HRA; accordingly, they have not been reported as liabilities in the accompanying financial statements.

At December 31, 2006, the following conduit debt existed:

Housing Authority Bonds	\$ 379,064
Lease Revenue Bonds	3,815,000
Total	<u>\$ 4,194,064</u>

4. Tax Increment Revenue Note

On November 13, 2003, the City issued a Tax Increment Revenue Note for \$185,000 and bearing interest at 7% to the Housing and Redevelopment Authority of Brainerd (a component unit) for the purpose of financing a housing development project. This note is not a general obligation of the City as it is only payable to the extent of the future tax increments received.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

5. Risk Management

The City 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. The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota Cities.

The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of insured events.

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

NOTE 4 PENSION PLANS

A. Public Employees Retirement Association

Plan Description

All full-time and certain part-time employees of the City of Brainerd are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapter 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers who qualify as members by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement 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.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 4 PENSION PLANS (CONTINUED)

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2 the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and for PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree and no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the web at mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 4 PENSION PLANS (CONTINUED)

A. Public Employees Retirement Association (Continued)

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by State Statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.50%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. PEPFF members are required to contribute 6.20% of their annual covered salary in 2005. That rate will increase to 7.0% in 2006. The City of Brainerd is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.0% for Coordinated Plan PERF members and 10.5% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.25% and 11.7%, respectively, effective January 1, 2007. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005, and 2004, were \$280,277, \$255,342, and \$251,224, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2006, 2005, and 2004 were \$206,224, \$171,036, and \$176,898, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

Defined Contribution Plan

The elected officials of the City of Brainerd are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5.00% of salary which is matched by the elected official's employer. For salaried employees, employer contributions must be a fixed percentage of salary. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00% of employer contributions and .004% of the assets in each member's account annually. Total contributions made by the City of Brainerd during 2006 were:

Amount		Percentage of Covered Payroll		Required
Employees	Employer	Employees	Employer	Rates
\$ 2,488	\$ 2,488	5.00%	5.00%	5.00%

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 4 PENSION PLANS (CONTINUED)

B. Brainerd Volunteer Fire Relief Association

Plan Description

All members of the Brainerd Fire Department are covered by a defined benefit plan administered by the Brainerd Volunteer Firefighters Relief Association. The plan is a single employer retirement plan and is established and administered in accordance with *Minnesota Statute*, Chapter 69.

The Relief Association provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established in accordance with State Statute, and vest after ten years of credited service. The defined retirement benefits are based on a member's years of service. Benefit provisions can be amended by the Relief Association within the parameters provided by State Statutes.

The Association issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting the City's Fire Hall.

Funding Policy

Minnesota Statutes specify minimum contributions that may be required from the City on an annual basis. These minimum contributions are determined based on the amount required to meet normal cost plus amortizing any prior year's service cost over a ten year period. The contribution required from the City for the year ended December 31, 2006 was \$0. However, the City did contribute \$51,225 in 2006 to the relief association. The Relief Association also receives funding from the state two-percent fire premium tax. The City receives the contributions and is required by state statute to pass this through as payment to the Relief Association. Investment earnings also add to the resources available for benefits. The City remitted Fire Aid in the amount of \$205,241 in 2006.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation for the year ended December 31, 2006 were as follows:

Annual Required Contribution	\$	-
Interest on Net Pension Obligation		-
Adjustment to Annual Required Contribution		-
Annual Pension Cost		-
Contribution Made		-
Increase (Decrease) in Net Pension Obligation		-
Net Pension Obligation - Beginning of Year		-
Net Pension Obligation - End of Year	\$	-

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 4 PENSION PLANS (CONTINUED)

B. Brainerd Volunteer Fire Relief Association (Continued)

Annual Pension Cost and Net Pension Obligation (Continued)

The annual required contribution for the current year was determined as part of December 31, 2006 actuarial valuation using the entry age actuarial cost method. The significant actuarial assumptions included: (a) 5% investments rate of return; and (b) age and service retirement was assumed to occur at age 50. Net pension obligations on annual actuarial basis are not calculated for individual volunteer fire relief associations since State Statutes permit alternate calculation of required reserves based on overall actuarial assumptions.

The City's net pension obligation for the Relief Association for the years ended December 31, 2006, 2005, and 2004 are as follows:

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/04	\$ -	100.0 %	\$ -
12/31/05	-	100.0	-
12/31/06	-	100.0	-

C. Component Unit Pension Information

Qualified employees of the Housing and Redevelopment Authority (HRA) of Brainerd, a discrete component unit of the City of Brainerd, belong to the Housing Renewal and Local Agency Retirement Plan, which is a defined contribution retirement plan. The retirement plan is a national plan with local or regional housing authorities and commissions, urban renewal agencies and other organizations eligible to participate. Required contributions were made by the HRA to the Housing Renewal and Local Agency Retirement Plan.

Detailed information concerning the HRA's pension plan is presented in its publicly available annual report for the year ended December 31, 2006. That report may be obtained by contacting the HRA.

CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 5 JOINT VENTURES

Shown on the combined financial statement as a discrete component unit, is the City's interest in the Brainerd-Crow Wing County Airport. The City and Crow Wing County have an agreement whereby each contribute equally to all locally financed costs of the operation of the airport. An airport commission is responsible for operations and the City provides accounting services. The City accounts for all transactions of the airport. Any appropriation by the City for the airport commission is recorded as expenditure in the year it is approved by the City Council. The City also has a 50 percent undivided interest in the property, improvements and buildings of the airport.

NOTE 6 SUMMARY OF OTHER ITEMS

A. Claims and Litigation

The City, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigations. The City estimates that the potential claims resulting from such litigation and not covered by insurance would not materially affect the financial statements of the City. No liability or provision for loss has been recorded in the December 31, 2006 financial statements in relation to any of these matters.

B. Grants

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial. The financial assistance received is subject to an audit pursuant to OMB Circular A-133 or audits by the grantor agency.

C. Commitments

Under a wholesale power agreement with Minnesota Power and Light Company, the Brainerd Public Utilities is committed to demand charges on certain of its electric power and energy requirements through the year 2016.

At December 31, 2006, the City was committed under various construction contracts totaling approximately \$168,263.

The Brainerd Lakes Regional Airport, a component unit of the City, was committed under various construction contracts at December 31, 2006 totaling approximately \$185,000.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 7 TRANSACTIONS BETWEEN THE CITY AND BPU

BPU makes monthly contributions to the City based on retail sales of the electric department. The contributions for the year ended December 31, 2006, totaled \$696,333. BPU bills the City for all utility services at regular utility rates as set by the BPU Commission.

The City constructs infrastructure related to providing water services to BPU customers. The City then contributes this infrastructure to BPU. Contributions for the year ended December 31, 2006 totaled \$309,120.

NOTE 8 LAND/HOMES HELD FOR RESALE

The HRA's policy is to report land/homes held for resale at the lower of cost or estimated fair value. Due to a significant downturn in the local real estate market, management determined the Brainerd Oaks housing development current estimated fair value was less than the costs incurred to date relating to the project. The estimated fair value was determined by a combination of an independent appraisal on the land portion of the development and management's estimate of sales proceeds less related selling costs of the eleven completed homes held in inventory at December 31, 2006. The financial statements reflect a write-down of the inventory balance of \$486,500.

NOTE 9 SUBSEQUENT EVENT

On May 2, 2007, the City issued \$900,000 of Equipment Certificates to finance the purchase of capital equipment. The interest rate on the certificates is 3.75% and the certificates mature July 1, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BRAINERD, MINNESOTA
BRAINERD VOLUNTEER FIRE RELIEF ASSOCIATION
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Unfunded)/ Assets in Excess of AAL (UAAL)	Funded Ratio
12/31/04	\$ 2,259,875	\$ 2,349,053	\$ (89,178)	96.2
12/31/05	2,432,814	2,370,525	62,289	102.6
12/31/06	2,775,663	2,483,529	292,134	111.8

The Brainerd Volunteer Fire Relief Association is comprised of volunteers. Therefore, there are no payroll expenditures nor covered payroll calculations.

**CITY OF BRAINERD, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2006**

	BUDGET		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL		FINAL BUDGET
REVENUES				
Taxes	\$ 1,871,023	\$ 1,644,223	\$ 1,643,942	\$ (281)
Licenses and Permits	384,475	384,475	337,136	(47,339)
Intergovernmental	4,452,091	4,193,507	4,193,507	-
Charges for Services	19,718	19,718	19,181	(537)
Interest	54,000	54,000	92,592	38,592
Miscellaneous	202,439	202,439	253,938	51,499
Total Revenues	<u>6,983,746</u>	<u>6,498,362</u>	<u>6,540,296</u>	<u>41,934</u>
EXPENDITURES				
Current				
General Government				
Mayor and Council	123,552	123,552	124,106	554
City Administration	425,861	404,632	464,542	59,910
Legal	89,375	89,375	87,989	(1,386)
Engineering	57,554	35,433	80,925	45,492
Planning and Zoning	147,183	151,091	145,811	(5,280)
Buildings and Plant	96,500	96,500	89,410	(7,090)
Inspections	336,626	348,241	336,514	(11,727)
Other	840,472	683,204	708,641	25,437
Debt Service				
Principal Retirement	-	-	3,161	3,161
Total Expenditures	<u>2,117,123</u>	<u>1,932,028</u>	<u>2,041,099</u>	<u>109,071</u>
EXCESS OF REVENUES OVER EXPENDITURES	4,866,623	4,566,334	4,499,197	(67,137)
OTHER FINANCING SOURCES (USES)				
Proceeds from Capital Lease	-	-	34,670	34,670
Sale of Assets	-	-	33	33
Transfers Out	(4,365,716)	(4,365,716)	(4,325,714)	40,002
Total Other Financing Sources (Uses)	<u>(4,365,716)</u>	<u>(4,365,716)</u>	<u>(4,291,011)</u>	<u>74,705</u>
NET CHANGE IN FUND BALANCE	<u>\$ 500,907</u>	<u>\$ 200,618</u>	208,186	<u>\$ 7,568</u>
Fund Balance - Beginning of Year			<u>2,812,743</u>	
FUND BALANCE - END OF YEAR			<u>\$ 3,020,929</u>	

**CITY OF BRAINERD, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
PUBLIC SAFETY FUND
YEAR ENDED DECEMBER 31, 2006**

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 64,000	\$ 57,744	\$ 57,438	\$ (306)
Intergovernmental	421,384	427,640	405,274	(22,366)
Charges for Services	606,191	606,191	598,130	(8,061)
Fines and Forfeits	245,000	245,000	297,886	52,886
Miscellaneous	56,000	56,000	54,310	(1,690)
Total Revenues	<u>1,392,575</u>	<u>1,392,575</u>	<u>1,413,038</u>	<u>20,463</u>
EXPENDITURES				
Current				
Public Safety				
Police	3,030,124	3,047,274	2,992,763	(54,511)
Fire	1,041,827	989,730	995,630	5,900
Fire Retirement Association	213,800	240,800	257,466	16,666
Civil Defense	23,000	8,000	8,782	782
Animal Control	67,767	67,767	75,538	7,771
Capital Outlay	-	85,386	92,000	6,614
Total Expenditures	<u>4,376,518</u>	<u>4,438,957</u>	<u>4,422,179</u>	<u>(16,778)</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(2,983,943)	(3,046,382)	(3,009,141)	37,241
OTHER FINANCING SOURCES				
Sale of Capital Assets	-	-	2,359	2,359
Transfers In	2,983,943	2,983,943	2,983,943	-
Transfers Out	-	-	(52,500)	(52,500)
Total Other Financing Sources	<u>2,983,943</u>	<u>2,983,943</u>	<u>2,933,802</u>	<u>(50,141)</u>
NET CHANGE IN FUND DEFICIT	<u>\$ -</u>	<u>\$ (62,439)</u>	(75,339)	<u>\$ (12,900)</u>
Fund Deficit - Beginning of Year			<u>(48,964)</u>	
FUND DEFICIT - END OF YEAR			<u>\$ (124,303)</u>	

**CITY OF BRAINERD, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2006**

NOTE 1 LEGAL COMPLIANCE - BUDGETS

The General and Public Safety Fund budgets are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America.

In the following fund, expenditures exceeded the appropriations during the year ended December 31, 2006:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures Over Appropriations</u>
General Fund	\$ 2,041,099	\$ 1,932,028	\$ 109,071

The above overages were considered by the City's management to be the result of necessary expenditures critical to operations and were approved by the Council.

NOTE 2 UNBUDGETED MAJOR SPECIAL REVENUE FUND

The City has not adopted a budget for the Revolving Loans Fund. Thus, there is no budgetary comparison schedule included in the required supplementary information.

COMBINING AND INDIVIDUAL NONMAJOR FUND STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision, or local ordinance to finance particular functions or activities of government.

The Nonmajor Special Revenue Funds maintained by the City are described as follows:

SCHOOL PATROL FUND

This Fund was established to account for donations from individuals and service organizations for the purpose of sending students to school patrol training at Legionville, Minnesota.

RECYCLING FUND

The Recycling Fund accounts for revenue from Crow Wing County's SCORE funds for the City's recycling program.

STREET AND SEWER FUND

This Fund was established by authority of the City Charter to account for all expenses of cleaning and repairing of streets, alleys and sewers not payable through special assessments or out of the Permanent Improvement Fund.

CITY PARKING LOTS FUND

This Fund accounts for the revenues from parking lot rentals and expenditures from maintaining the City parking lots.

SANITARY SEWER COLLECTION SYSTEM FUND

This Fund was created by Ordinance No. 926 for the partial payment of the operations, maintenance, inspection, repair and replacement of sanitary sewer lines.

PARK AND RECREATION FUND

This Fund was established by authority of the City Charter to account for the acquisition and maintenance of public parks and public recreation activities.

ECONOMIC DEVELOPMENT AUTHORITY FUND

This Fund was established by the bylaws of the Economic Development Authority to account for the activities of the Economic Development Authority.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (CONTINUED)

TRANSIT FUND

The Transit Fund accounts for revenues and expenditures of the City's dial-a-ride transportation system operation.

WATER AND SEWER AVAILABILITY CHARGES FUND

This Fund was created by Ordinance 1147 for the purpose of providing funds for the City's wells, water treatment, water storage, water distribution systems, waste water treatment, force mains, lift stations and sewage collection systems, and the plant and facilities connected therewith, and the payment of capital charges represented by bonds, certificates of indebtedness or otherwise, which may be used to finance the costs.

JOBZ PROGRAMS FUND

This Fund was established to account for the JOBZ tax-free development program which is for companies that start up, expand, or relocate in Greater Minnesota. This program was passed into law by the 2003 State Legislature.

PERMANENT IMPROVEMENT FUND

This Fund was established by authority of the City Charter for paying the portion of the cost of improving streets and alleys assessed upon the City.

CONTINGENCY FUND

This Fund was established by authority of the City Charter for the use of the Mayor in paying expenditures incurred by the Mayor in promoting the best interest of the City.

HYDRANT RENTAL AND ELECTRIC CURRENT FUND

This Fund was established by authority of the City Charter to provide payment for rent for water drawn from hydrants for the needs and use of the City and for rates for the lighting of the streets and electric power for City use to the Brainerd Public Utilities.

HOUSING AND REDEVELOPMENT AUTHORITY FUND

The Housing and Redevelopment Authority Fund was established to account for tax levies collected for the Brainerd Housing and Redevelopment Authority.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (CONTINUED)

INDUSTRIAL PARK SOUTH FUND

This Fund accounts for all activities related to the development of the addition to the City's industrial park.

PERA/POLICE CONSOLIDATION RESIDUAL FUND

This Fund was established, per 1999 legislation, to account for the over funded residual asset amount. The funds must be used by the municipality to defray police department expenditure items.

DRUG AND DUI FORFEITURE FUND

This Fund is maintained according to federal forfeited property regulations and is used to account for monies allocated to the City and spent according to their guidelines. It is also maintained to account for the collection of funds from the sale of recovered property and the sale of DUI forfeiture property. DUI forfeiture proceeds are restricted to DUI enforcement and education per Minnesota Statutes.

STORM SEWER FUND

This Fund was created by Ordinance No. 1167 for the partial payment of the operations, maintenance, inspection, establishment and repair of the existing municipal storm sewer drainage system and additions thereto.

FLEXIBLE BENEFITS FUND

This Fund accounts for the collection and payment of pre-tax dollars withheld from eligible City participants for health care and dependent care benefits.

TAX INCREMENT FINANCING DISTRICT FUND

The following tax increment financing district funds were established to account for tax increment revenues and expenditures related to each project:

Ridgeview Apartments
Perkins
Marsh Run
Thrifty Drug
Metro Building

City Center
Walgreens
Willows Phase I
Willows Phase II
East Brainerd Mall

Lexington Manufacturing
Timberland Townhomes
Brainerd Oaks

**CITY OF BRAINERD, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

SPECIAL REVENUE FUNDS

	SCHOOL PATROL	RECYCLING	STREET AND SEWER	CITY PARKING LOTS	SANITARY SEWER COLLECTION SYSTEM	PARK AND RECREATION
ASSETS						
Cash and Investments	\$ 8,047	\$ 25,074	\$ 25,011	\$ 143,405	\$ 176,629	\$ 1,122
Receivables						
Taxes	-	-	1,568	-	-	1,372
Accounts	-	-	-	-	-	-
Special Assessments	-	-	13,330	-	-	-
Accrued Interest	31	67	-	472	472	21
Due from Component Unit	-	-	34,380	-	32,846	1,959
Due from Other						
Governments	-	-	1,498	-	-	-
Land Held for Resale	-	-	-	-	-	-
Total Assets	\$ 8,078	\$ 25,141	\$ 75,787	\$ 143,877	\$ 209,947	\$ 4,474
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ 36,729	\$ -	\$ 1,582	\$ 1,959
Accrued Liabilities	-	-	6,826	-	3,796	9,949
Deposit Payable	-	-	-	-	-	-
Deferred Revenue	-	-	13,847	-	-	795
Due to Other Funds	-	-	-	-	-	-
Total Liabilities	-	-	57,402	-	5,378	12,703
FUND BALANCE						
Unreserved						
Undesignated	8,078	25,141	18,385	143,877	204,569	(8,229)
Total Liabilities and Fund Balance	\$ 8,078	\$ 25,141	\$ 75,787	\$ 143,877	\$ 209,947	\$ 4,474

<u>ECONOMIC DEVELOPMENT AUTHORITY</u>	<u>TRANSIT</u>	<u>WATER AND SEWER AVAILABILITY CHARGES</u>	<u>JOBZ PROGRAMS</u>	<u>PERMANENT IMPROVEMENT</u>	<u>HYDRANT RENTAL AND ELECTRIC CURRENT</u>	<u>HOUSING AND REDEVELOPMENT</u>
\$ 207,111	\$ 113,626	\$ 644,046	\$ 17,660	\$ -	\$ -	\$ -
4,548				13,958	6,979	3,607
-	5,500	-	-	-	-	-
-	-	-	-	-	-	-
519	295	1,315	-	-	-	-
-	-	-	-	-	-	-
-	83,118	-	-	-	-	-
<u>1,769,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,981,978</u>	<u>\$ 202,539</u>	<u>\$ 645,361</u>	<u>\$ 17,660</u>	<u>\$ 13,958</u>	<u>\$ 6,979</u>	<u>\$ 3,607</u>
\$ -	\$ 47,809	\$ -	\$ -	\$ -	\$ -	\$ -
445	1,156	-	-	-	-	-
-	-	-	17,660	-	-	-
1,772,663	-	-	0	8,760	4,380	2,194
-	-	-	-	-	-	-
<u>1,773,108</u>	<u>48,965</u>	<u>-</u>	<u>17,660</u>	<u>8,760</u>	<u>4,380</u>	<u>2,194</u>
<u>208,870</u>	<u>153,574</u>	<u>645,361</u>	<u>-</u>	<u>5,198</u>	<u>2,599</u>	<u>1,413</u>
<u>\$ 1,981,978</u>	<u>\$ 202,539</u>	<u>\$ 645,361</u>	<u>\$ 17,660</u>	<u>\$ 13,958</u>	<u>\$ 6,979</u>	<u>\$ 3,607</u>

**CITY OF BRAINERD, MINNESOTA
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

SPECIAL REVENUE FUNDS

	INDUSTRIAL PARK SOUTH	PERA/POLICE CONSOLIDATION RESIDUAL	DRUG & DUI FORFEITURE	STORM SEWER FUND	FLEXIBLE BENEFITS FUND	TAX INCREMENT FINANCING DISTRICTS	TOTALS
ASSETS							
Cash and Investments	\$ 44,003	\$ 92,416	\$ 60,315	\$ 125,477	\$ -	\$ 283,923	\$ 1,967,865
Receivables							
Taxes	-	-	-	-	-	-	32,032
Accounts	-	-	-	-	-	11,294	16,794
Special Assessments	-	-	-	-	-	-	13,330
Accrued Interest	-	148	-	-	-	-	3,340
Due from Component Unit	-	-	-	15,573	-	2,806	87,564
Due from Other							
Governments	-	-	-	-	-	-	84,616
Land Held for Resale	188,066	-	-	-	-	-	1,957,866
Total Assets	\$ 232,069	\$ 92,564	\$ 60,315	\$ 141,050	\$ -	\$ 298,023	\$ 4,163,407
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts Payable	\$ -	\$ 2,513	\$ -	\$ -	\$ -	\$ -	\$ 90,592
Accrued Liabilities	-	-	-	875	-	-	23,047
Deposit Payable	-	-	-	-	-	-	17,660
Deferred Revenue	188,066	-	-	-	-	-	1,990,705
Due to Other Funds	-	-	-	-	8,027	-	8,027
Total Liabilities	188,066	2,513	-	875	8,027	-	2,130,031
FUND BALANCE							
Unreserved							
Undesignated	44,003	90,051	60,315	140,175	(8,027)	298,023	2,033,376
Total Liabilities and Fund Balance	\$ 232,069	\$ 92,564	\$ 60,315	\$ 141,050	\$ -	\$ 298,023	\$ 4,163,407

**CITY OF BRAINERD, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2006**

	SPECIAL REVENUE FUNDS				
	SCHOOL PATROL	RECYCLING	STREET AND SEWER	CITY PARKING LOTS	SANITARY SEWER COLLECTION SYSTEM
REVENUES					
Taxes	\$ -	\$ -	\$ 36,460	\$ -	\$ -
Tax Increments	-	-	-	-	-
Intergovernmental	-	84,390	3,972	-	-
Charges for Services	-	666	-	27,036	350,618
Fines and Forfeits	-	-	-	-	-
Special Assessments	-	-	4,092	-	-
Interest	30	1,322	-	5,248	2,175
Sale of Land Held for Resale	-	-	-	-	-
Miscellaneous	13,535	196	403,932	432	-
Total Revenues	<u>13,565</u>	<u>86,574</u>	<u>448,456</u>	<u>32,716</u>	<u>352,793</u>
EXPENDITURES					
Current					
General Government	-	-	-	-	-
Public Safety	11,884	-	-	-	-
Public Works	-	83,487	1,010,001	22,090	230,677
Culture and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Capital Outlay	-	-	-	-	900
Debt Service					
Principal	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Total Expenditures	<u>11,884</u>	<u>83,487</u>	<u>1,010,001</u>	<u>22,090</u>	<u>231,577</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,681	3,087	(561,545)	10,626	121,216
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	-	-	1,204	-	-
Proceeds From Issuance of Debt	-	-	-	-	-
Transfers In	-	-	600,299	-	-
Transfers Out	-	-	-	(2,070)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>601,503</u>	<u>(2,070)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	1,681	3,087	39,958	8,556	121,216
Fund Balance (Deficit) - Beginning of Year	<u>6,397</u>	<u>22,054</u>	<u>(21,573)</u>	<u>135,321</u>	<u>83,353</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 8,078</u>	<u>\$ 25,141</u>	<u>\$ 18,385</u>	<u>\$ 143,877</u>	<u>\$ 204,569</u>

PARK AND RECREATION	ECONOMIC DEVELOPMENT AUTHORITY	TRANSIT	WATER & SEWER AVAILABILITY CHARGES	JOBZ PROGRAMS	PERMANENT IMPROVEMENT	CONTINGENCY
\$ 31,930	\$ 105,167	\$ 60	\$ -	\$ -	\$ 322,655	\$ -
-	-	-	-	-	-	-
3,478	11,510	699,493	-	-	35,319	-
186,140	-	146,499	142,329	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
582	11,392	4,421	26,554	-	-	-
-	-	-	-	-	-	-
43,295	-	-	-	-	-	-
<u>265,425</u>	<u>128,069</u>	<u>850,473</u>	<u>168,883</u>	<u>-</u>	<u>357,974</u>	<u>-</u>
-	-	-	-	-	-	2,500
-	-	-	-	-	-	-
-	-	748,742	-	-	-	-
918,144	-	-	-	-	-	-
-	978,212	-	-	5,983	-	-
1,009	4,346	58,972	-	-	-	-
-	179,200	-	-	-	-	-
-	-	-	-	-	-	-
<u>919,153</u>	<u>1,161,758</u>	<u>807,714</u>	<u>-</u>	<u>5,983</u>	<u>-</u>	<u>2,500</u>
(653,728)	(1,033,689)	42,759	168,883	(5,983)	357,974	(2,500)
312	-	3,527	-	-	-	-
-	896,000	-	-	-	-	-
640,244	-	-	-	-	-	2,500
(20,413)	-	-	(100,000)	-	(357,127)	-
<u>620,143</u>	<u>896,000</u>	<u>3,527</u>	<u>(100,000)</u>	<u>-</u>	<u>(357,127)</u>	<u>2,500</u>
(33,585)	(137,689)	46,286	68,883	(5,983)	847	-
25,356	346,559	107,288	576,478	5,983	4,351	-
<u>\$ (8,229)</u>	<u>\$ 208,870</u>	<u>\$ 153,574</u>	<u>\$ 645,361</u>	<u>\$ -</u>	<u>\$ 5,198</u>	<u>\$ -</u>

**CITY OF BRAINERD, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2006**

	SPECIAL REVENUE FUNDS			
	HYDRANT RENTAL & ELECTRIC CURRENT	HOUSING AND REDEVELOPMENT AUTHORITY	INDUSTRIAL PARK SOUTH	PERA/POLICE CONSOLIDATION RESIDUAL
REVENUES				
Taxes	\$ 161,364	\$ 83,857	\$ -	\$ -
Tax Increments	-	-	-	-
Intergovernmental	17,663	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeits	-	-	-	-
Special Assessments	-	-	-	-
Interest	-	-	9,371	3,436
Sale of Land Held for Resale	-	-	41,200	-
Miscellaneous	-	-	15,247	-
Total Revenues	<u>179,027</u>	<u>83,857</u>	<u>65,818</u>	<u>3,436</u>
EXPENDITURES				
Current				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	178,603	-	-	-
Culture and Recreation	-	-	-	-
Economic Development	-	83,595	-	-
Capital Outlay	-	-	-	50,322
Debt Service				
Principal	-	-	193,216	-
Interest and Fiscal Charges	-	-	15,247	-
Total Expenditures	<u>178,603</u>	<u>83,595</u>	<u>208,463</u>	<u>50,322</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	424	262	(142,645)	(46,886)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	-	-	-	-
Proceeds from Issuance of Debt	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	424	262	(142,645)	(46,886)
Fund Balance (Deficit) - Beginning of Year	<u>2,175</u>	<u>1,151</u>	<u>186,648</u>	<u>136,937</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 2,599</u>	<u>\$ 1,413</u>	<u>\$ 44,003</u>	<u>\$ 90,051</u>

DUI & DRUG FORFEITURE	STORM SEWER FUND	FLEXIBLE BENEFITS FUND	TAX INCREMENT FINANCING DISTRICTS	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 741,493
-	-	-	452,553	452,553
-	-	-	-	855,825
-	178,189	-	-	1,031,477
74,155	-	-	-	74,155
-	-	-	-	4,092
-	1,705	-	-	66,236
-	-	-	-	41,200
-	-	127,071	2,806	606,514
<u>74,155</u>	<u>179,894</u>	<u>127,071</u>	<u>455,359</u>	<u>3,873,545</u>
-	-	131,592	-	134,092
14,096	-	-	-	25,980
-	104,938	-	-	2,378,538
-	-	-	-	918,144
-	-	-	446,613	1,514,403
10,548	-	-	-	126,097
-	-	-	-	372,416
-	-	-	-	15,247
<u>24,644</u>	<u>104,938</u>	<u>131,592</u>	<u>446,613</u>	<u>5,484,917</u>
49,511	74,956	(4,521)	8,746	(1,611,372)
-	-	-	-	5,043
-	-	-	-	896,000
-	-	-	-	1,243,043
-	-	-	-	(479,610)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,664,476</u>
49,511	74,956	(4,521)	8,746	53,104
<u>10,804</u>	<u>65,219</u>	<u>(3,506)</u>	<u>289,277</u>	<u>1,980,272</u>
<u>\$ 60,315</u>	<u>\$ 140,175</u>	<u>\$ (8,027)</u>	<u>\$ 298,023</u>	<u>\$ 2,033,376</u>

CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
RECYCLING FUND
YEAR ENDED DECEMBER 31, 2006

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Intergovernmental	\$ 84,390	\$ 84,390	\$ -
Charges for Services	500	666	166
Miscellaneous			
Interest	400	1,322	922
Other	-	196	196
Total Revenues	<u>85,290</u>	<u>86,574</u>	<u>1,284</u>
EXPENDITURES			
Current			
Public Works	<u>85,290</u>	<u>83,487</u>	<u>(1,803)</u>
EXCESS OF REVENUES OVER EXPENDITURES			
	<u>\$ -</u>	3,087	<u>\$ 3,087</u>
Fund Balance - Beginning of Year		<u>22,054</u>	
FUND BALANCE - END OF YEAR		<u>\$ 25,141</u>	

CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
STREET AND SEWER FUND
YEAR ENDED DECEMBER 31, 2006

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Taxes	\$ 37,028	\$ 36,460	\$ (568)
Intergovernmental	3,972	3,972	-
Special Assessments	-	4,092	4,092
Miscellaneous			
Other	400,000	403,932	3,932
Total Revenues	<u>441,000</u>	<u>448,456</u>	<u>7,456</u>
EXPENDITURES			
Current			
Public Works			
Streets and Alleys	938,619	905,960	(32,659)
Ice and Snow Removal	33,500	16,228	(17,272)
Traffic Control	51,488	60,359	8,871
Capital Outlay	32,000	27,454	(4,546)
Total Expenditures	<u>1,055,607</u>	<u>1,010,001</u>	<u>(45,606)</u>
DEFICIENCY OF REVENUES OVER (UNDER)			
EXPENDITURES	(614,607)	(561,545)	53,062
OTHER FINANCING SOURCES			
Transfers In	598,229	600,299	2,070
Sale of Capital Assets	-	1,204	1,204
Total Other Financing Sources	<u>598,229</u>	<u>601,503</u>	<u>3,274</u>
NET CHANGE IN FUND BALANCE	<u>\$ (16,378)</u>	39,958	<u>\$ 56,336</u>
Fund Deficit - Beginning of Year		<u>(21,573)</u>	
FUND BALANCE - END OF YEAR		<u>\$ 18,385</u>	

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CITY PARKING LOTS FUND
YEAR ENDED DECEMBER 31, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Charges for Services	\$ 34,800	\$ 27,036	\$ (7,764)
Miscellaneous			
Interest	1,300	5,248	3,948
Other	500	432	(68)
Total Revenues	<u>36,600</u>	<u>32,716</u>	<u>(3,884)</u>
EXPENDITURES			
Current			
Public Works	<u>18,910</u>	<u>22,090</u>	<u>3,180</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	17,690	10,626	(7,064)
OTHER FINANCING USES			
Transfers Out	<u>-</u>	<u>(2,070)</u>	<u>(2,070)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 17,690</u>	8,556	<u>\$ (9,134)</u>
Fund Balance - Beginning of Year		<u>135,321</u>	
FUND BALANCE - END OF YEAR		<u>\$ 143,877</u>	

**CITY OF BRAINERD, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 SANITARY SEWER COLLECTION SYSTEM FUND
 YEAR ENDED DECEMBER 31, 2006**

	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES			
Charges for Services	\$ 230,000	\$ 350,618	\$ 120,618
Miscellaneous			
Interest	-	2,175	2,175
Total Revenues	230,000	352,793	122,793
EXPENDITURES			
Current			
Public Works	207,317	230,677	23,360
Capital Outlay	28,000	900	(27,100)
Total Expenditures	235,317	231,577	(3,740)
NET CHANGE IN FUND BALANCE	\$ (5,317)	121,216	\$ 126,533
Fund Balance - Beginning of Year		83,353	
FUND BALANCE - END OF YEAR		\$ 204,569	

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PARK AND RECREATION FUND
YEAR ENDED DECEMBER 31, 2006**

	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES			
Taxes	\$ 31,722	\$ 31,930	\$ 208
Intergovernmental	3,478	3,478	-
Charges for Services	180,175	186,140	5,965
Miscellaneous			
Contributions	-	2,681	2,681
Interest	-	582	582
Other	29,300	40,614	11,314
Total Revenues	<u>244,675</u>	<u>265,425</u>	<u>20,750</u>
EXPENDITURES			
Current			
Culture and Recreation	906,173	918,144	11,971
Capital Outlay	1,000	1,009	9
Total Expenditures	<u>907,173</u>	<u>919,153</u>	<u>11,980</u>
DEFICIENCY OF REVENUES OVER (UNDER) EXPENDITURES	(662,498)	(653,728)	8,779
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	-	312	312
Transfers In	640,244	640,244	-
Transfers Out	-	(20,413)	(20,413)
Total Other Financing Sources (Uses)	<u>640,244</u>	<u>620,143</u>	<u>(20,101)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (22,254)</u>	<u>(33,585)</u>	<u>\$ (11,331)</u>
Fund Balance - Beginning of Year		<u>25,356</u>	
FUND DEFICIT - END OF YEAR		<u>\$ (8,229)</u>	

CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT AUTHORITY FUND
YEAR ENDED DECEMBER 31, 2006

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Taxes	\$ 105,990	\$ 105,167	\$ (823)
Intergovernmental	11,510	11,510	-
Miscellaneous			
Interest	<u>4,000</u>	<u>11,392</u>	<u>7,392</u>
Total Revenues	<u>121,500</u>	<u>128,069</u>	<u>6,569</u>
EXPENDITURES			
Current			
Economic Development	84,369	978,212	893,843
Capital Outlay	-	4,346	4,346
Debt Service			
Principal	<u>-</u>	<u>179,200</u>	<u>179,200</u>
Total Expenditures	<u>84,369</u>	<u>1,161,758</u>	<u>1,077,389</u>
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	37,131	(1,033,689)	(1,070,820)
OTHER FINANCING SOURCES			
Proceeds from Issuance of Debt	<u>-</u>	<u>896,000</u>	<u>896,000</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ 37,131</u></u>	<u><u>(137,689)</u></u>	<u><u>\$ (174,820)</u></u>
Fund Balance - Beginning of Year		<u>346,559</u>	
FUND BALANCE - END OF YEAR		<u><u>\$ 208,870</u></u>	

CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
TRANSIT FUND
YEAR ENDED DECEMBER 31, 2006

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Taxes	\$ -	\$ 60	\$ 60
Intergovernmental	703,390	699,493	(3,897)
Charges for Services	102,600	146,499	43,899
Miscellaneous			
Interest	<u>-</u>	<u>4,421</u>	<u>4,421</u>
Total Revenues	805,990	850,473	44,483
EXPENDITURES			
Current			
Public Works	753,811	748,742	(5,069)
Capital Outlay	54,000	58,972	4,972
Total Expenditures	<u>807,811</u>	<u>807,714</u>	<u>(97)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,821)	42,759	44,580
OTHER FINANCING SOURCES			
Sale of Capital Assets	<u>-</u>	<u>3,527</u>	<u>3,527</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>\$ (1,821)</u>	46,286	<u>\$ 48,107</u>
Fund Balance - Beginning of Year		<u>107,288</u>	
FUND BALANCE - END OF YEAR		<u>\$ 153,574</u>	

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PERMANENT IMPROVEMENT FUND
YEAR ENDED DECEMBER 31, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Taxes	\$ 324,681	\$ 322,655	\$ (2,026)
Intergovernmental	<u>35,319</u>	<u>35,319</u>	<u>-</u>
Total Revenues	360,000	357,974	(2,026)
 OTHER FINANCING USES			
Transfers Out	<u>(360,000)</u>	<u>(357,127)</u>	<u>2,873</u>
 NET CHANGE IN FUND BALANCE	 <u>\$ -</u>	 847	 <u>\$ 847</u>
 Fund Balance - Beginning of Year		 <u>4,351</u>	
 FUND BALANCE - END OF YEAR		 <u>\$ 5,198</u>	

**CITY OF BRAINERD, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 CONTINGENCY FUND
 YEAR ENDED DECEMBER 31, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
EXPENDITURES			
Current			
General Government			
Mayor and Council	\$ 2,500	\$ 2,500	\$ -
OTHER FINANCING SOURCES			
Transfers In	<u>2,500</u>	<u>2,500</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ -</u></u>	<u>-</u>	<u><u>\$ -</u></u>
Fund Balance - Beginning of Year		<u>-</u>	
FUND BALANCE - END OF YEAR		<u><u>\$ -</u></u>	

**CITY OF BRAINERD, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 HYDRANT RENTAL AND ELECTRIC CURRENT FUND
 YEAR ENDED DECEMBER 31, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Taxes	\$ 162,337	\$ 161,364	\$ (973)
Intergovernmental	<u>17,663</u>	<u>17,663</u>	<u>-</u>
Total Revenues	<u>180,000</u>	<u>179,027</u>	<u>(973)</u>
 EXPENDITURES			
Current			
Public Works	<u>180,000</u>	<u>178,603</u>	<u>(1,397)</u>
 EXCESS OF REVENUES OVER EXPENDITURES	 <u>\$ -</u>	 424	 <u>\$ 424</u>
 Fund Balance - Beginning of Year		 <u>2,175</u>	
 FUND BALANCE - END OF YEAR		 <u>\$ 2,599</u>	

**CITY OF BRAINERD, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 HOUSING AND REDEVELOPMENT AUTHORITY FUND
 YEAR ENDED DECEMBER 31, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Taxes	\$ 92,600	\$ 83,857	\$ (8,743)
EXPENDITURES			
Current			
Economic Development	<u>92,600</u>	<u>83,595</u>	<u>(9,005)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>262</u>	<u>\$ 262</u>
Fund Balance - Beginning of Year		<u>1,151</u>	
FUND BALANCE - END OF YEAR		<u>\$ 1,413</u>	

**CITY OF BRAINERD, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 STORM SEWER FUND
 YEAR ENDED DECEMBER 31, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Charges for Services	\$ 15,000	\$ 178,189	\$ 163,189
Interest Income	-	1,705	1,705
Total Revenues	<u>15,000</u>	<u>179,894</u>	<u>164,894</u>
EXPENDITURES			
Current			
Public Works	90,534	61,261	(29,273)
Capital Outlay	-	43,677	43,677
Total Expenditures	<u>90,534</u>	<u>104,938</u>	<u>14,404</u>
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	<u>\$ (75,534)</u>	74,956	<u>\$ 150,490</u>
Fund Balance - Beginning of Year		<u>65,219</u>	
FUND BALANCE - END OF YEAR		<u><u>\$ 140,175</u></u>	

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DRUG AND DUI FORFEITURE FUND
YEAR ENDED DECEMBER 31, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Forfeitures	\$ 15,500	\$ 74,155	\$ 58,655
EXPENDITURES			
Current			
Economic Development	20,360	14,096	(6,264)
Capital Outlay	<u>-</u>	<u>10,548</u>	<u>10,548</u>
Total Expenditures	<u>20,360</u>	<u>24,644</u>	<u>4,284</u>
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	<u>\$ (4,860)</u>	49,511	<u>\$ 54,371</u>
Fund Balance- Beginning of Year		<u>10,804</u>	
FUND BALANCE - END OF YEAR		<u>\$ 60,315</u>	

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
YEAR ENDED DECEMBER 31, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>FINAL BUDGET</u>
REVENUES			
Taxes	\$ -	\$ 793	\$ 1,348,496
Intergovernmental	110,000	1,348,496	1,238,496
Special Assessments	-	124,219	124,219
Miscellaneous			
Interest	-	12,684	12,684
Other	-	29,480	29,480
Total Revenues	<u>110,000</u>	<u>1,515,672</u>	<u>2,753,375</u>
EXPENDITURES			
Capital Outlay	<u>242,536</u>	<u>4,153,631</u>	<u>3,911,095</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(132,536)	(2,637,959)	(2,505,423)
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Debt	-	1,630,000	1,630,000
Transfers In	357,000	430,040	73,040
Transfers Out	-	(31,847)	(31,847)
Total Other Financing Sources	<u>357,000</u>	<u>2,028,193</u>	<u>1,671,193</u>
NET CHANGE IN FUND DEFICIT	<u>\$ 224,464</u>	(609,766)	<u>\$ (834,230)</u>
Fund Deficit - Beginning of Year		<u>(26,237)</u>	
FUND DEFICIT - END OF YEAR		<u>\$ (636,003)</u>	

COMPONENT UNIT FINANCIAL STATEMENTS

**CITY OF BRAINERD, MINNESOTA
BRAINERD LAKES REGIONAL AIRPORT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	<u>Balance Sheet</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and Investments	\$ 1,630,436	\$ -	\$ 1,630,436
Receivables			
Accounts	5,874	-	5,874
Accrued Interest	3,508	-	3,508
Due from Other Governments	831,644	-	831,644
Capital Assets			
Land and Construction In Progress	-	21,807,677	21,807,677
Other Capital Assets, Net of Depreciation	-	7,932,433	7,932,433
Total Assets	<u>\$ 2,471,462</u>	29,740,110	<u>32,211,572</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 9,585	-	9,585
Accrued Liabilities	6,387	-	6,387
Contracts Payable	982,693	-	982,693
Deferred Revenue	1,553		
Long-Term Liabilities			
Due within One Year	-	60,530	60,530
Due in More than One Year	-	241,186	241,186
Total Liabilities	<u>1,000,218</u>	<u>301,716</u>	<u>1,300,381</u>
FUND BALANCE/NET ASSETS			
Fund Balance			
Unreserved	<u>1,471,244</u>	(1,471,244)	-
Total Liabilities and Fund Balance	<u>\$ 2,471,462</u>		
Net Assets			
Invested in Capital Assets, Net of Related Debt		29,591,108	29,591,108
Unrestricted		<u>1,318,530</u>	<u>1,318,530</u>
Total Net Assets		<u>\$ 30,909,638</u>	<u>\$ 30,909,638</u>

**CITY OF BRAINERD, MINNESOTA
 BRAINERD LAKES REGIONAL AIRPORT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2006**

	<u>Statement of Revenues, Expenditures and Changes in Fund Balance</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/Expenses	5,396,944	\$ (3,810,427)	\$ 1,586,517
Program Revenues			
Charges For Services	475,203	-	475,203
Operating Grants	484,613	-	484,613
Capital Grants	4,701,991	-	4,701,991
Total Program Revenues	<u>5,661,807</u>	<u>-</u>	<u>5,661,807</u>
Net Program Revenue (Expense)	264,863	3,810,427	4,075,290
General Revenues			
Unrestricted Investment Earnings	66,963	-	66,963
Miscellaneous	-	-	-
Total General Revenues	<u>66,963</u>	<u>-</u>	<u>66,963</u>
Change in Net Assets	331,826	3,810,427	4,142,253
Fund Balance/Net Assets			
Beginning of Year	<u>1,139,418</u>	<u>25,627,967</u>	<u>26,767,385</u>
End of Year	<u>\$ 1,471,244</u>	<u>\$ 29,438,394</u>	<u>\$ 30,909,638</u>

**CITY OF BRAINERD, MINNESOTA
BRAINERD PUBLIC LIBRARY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Balance Sheet	Adjustments	Statement of Net Assets
ASSETS			
Cash and Investments	\$ 197,061	\$ -	\$ 197,061
Receivables			
Taxes	5,332	-	5,332
Accounts	1,068	-	1,068
Accrued Interest	403	-	403
Capital Assets			
Land and Construction In Progress	-	9,041	9,041
Other Capital Assets, Net of Depreciation	-	770,488	770,488
Total Assets	\$ 203,864	779,529	983,393
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 3,649	-	3,649
Deferred Revenue	3,092	(3,092)	-
Total Liabilities	6,741	(3,092)	3,649
FUND BALANCE/NET ASSETS			
Fund Balances			
Unreserved	197,123	(197,123)	-
Total Liabilities and Fund Balances	\$ 203,864		
Net Assets			
Invested in Capital Assets, Net of Related Debt		779,529	779,529
Unrestricted		200,215	200,215
Total Net Assets		\$ 979,744	\$ 979,744

**CITY OF BRAINERD, MINNESOTA
BRAINERD PUBLIC LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006**

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Expenditures/Expenses	\$ 182,735	\$ 44,465	\$ 227,200
Program Revenues			
Charges For Services	21,326		21,326
Operating Grants	17,188	-	17,188
Total Program Revenues	<u>38,514</u>	<u>-</u>	<u>38,514</u>
Net Program Revenue (Expense)	(144,221)	(44,465)	(188,686)
General Revenues			
Property Taxes Levied for General Purposes	123,862	3,092	126,954
Unrestricted Investment Earnings	6,674	-	6,674
Miscellaneous	2,431	-	2,431
Total General Revenues	<u>132,967</u>	<u>3,092</u>	<u>136,059</u>
Change in Net Assets	(11,254)	(41,373)	(52,627)
Fund Balance/Net Assets			
Beginning of Year	<u>208,377</u>	<u>823,994</u>	<u>1,032,371</u>
End of Year	<u>\$ 197,123</u>	<u>\$ 782,621</u>	<u>\$ 979,744</u>

STATISTICAL INFORMATION SECTION (UNAUDITED)

**CITY OF BRAINERD, MINNESOTA
NET ASSETS BY COMPONENT
LAST THREE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities			
Invested in Capital Assets, Net Of Related Debt	\$ 21,186,625	\$ 24,842,011	\$ 26,265,720
Restricted	5,974,894	5,370,482	5,336,374
Unrestricted	<u>5,253,335</u>	<u>6,156,888</u>	<u>7,221,597</u>
Total Governmental Activities Net Assets	<u>\$ 32,414,854</u>	<u>\$ 36,369,381</u>	<u>\$ 38,823,691</u>
Business-Type Activities			
Invested in Capital Assets, Net of Related Debt	\$ 1,071,346	\$ 1,098,955	\$ 1,359,997
Restricted	-	-	-
Unrestricted	<u>21,972</u>	<u>(25,172)</u>	<u>(319,864)</u>
Total Business-Type Activities Net Assets	<u>\$ 1,093,318</u>	<u>\$ 1,073,783</u>	<u>\$ 1,040,133</u>
Primary Government			
Invested in Capital Assets, Net of Related Debt	\$ 22,257,971	\$ 25,940,966	\$ 27,625,717
Restricted	5,974,894	5,370,482	5,336,374
Unrestricted	<u>5,275,307</u>	<u>6,131,716</u>	<u>6,901,733</u>
Total Primary Government Net Assets	<u>\$ 33,508,172</u>	<u>\$ 37,443,164</u>	<u>\$ 39,863,824</u>

Note: The City began to report accrual information when it implemented GASB 34 in fiscal year 2004.

**CITY OF BRAINERD, MINNESOTA
CHANGES IN NET ASSETS
LAST THREE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses			
Governmental Activities:			
General Government	\$ 1,957,986	\$ 2,158,269	\$ 2,191,293
Public Safety	4,172,287	4,254,567	4,669,866
Public Works	4,627,761	4,986,031	4,303,971
Parks, Recreation and Forestry	780,592	886,338	1,013,141
Community Development	559,913	664,924	1,005,084
Interest on Long-Term Debt	476,882	473,298	437,108
Total Governmental Activities Expenses	<u>\$ 12,575,421</u>	<u>\$ 13,423,427</u>	<u>\$ 13,620,463</u>
Business-Type Activities:			
Arena	485,533	490,900	488,589
Total Primary Government Expenses	<u>\$ 13,060,954</u>	<u>\$ 13,914,327</u>	<u>\$ 14,109,052</u>
Program Revenues			
Governmental Activities			
Charges for Services			
General Government	\$ 732,750	\$ 791,993	\$ 600,198
Public Safety	790,213	1,011,722	1,063,909
Public Works	1,390,118	1,410,620	1,364,210
Culture and Recreation	191,907	206,247	222,847
Economic Development	22,204	175,424	166,334
Operating Grants and Contributions	1,085,254	974,170	1,024,439
Capital Grants and Contributions	4,799,989	1,907,045	2,484,970
Total Governmental Activities Program Revenues	<u>\$ 9,012,435</u>	<u>\$ 6,477,221</u>	<u>\$ 6,926,907</u>
Business-Type Activities			
Charges for Services			
Arena	347,256	339,739	354,687
Operating Grants and Contributions	92,804	93,626	99,694
Capital Grants and Contributions	40,000	-	-
Total Business-Type Activities Program Revenues	<u>480,060</u>	<u>433,365</u>	<u>454,381</u>
Total Primary Government Program Revenues	<u>\$ 9,492,495</u>	<u>\$ 6,910,586</u>	<u>\$ 7,381,288</u>
Net (Expense)/Revenue			
Governmental Activities	\$ (3,562,986)	\$ (6,946,206)	\$ (6,693,556)
Business-Type Activities	(5,473)	(57,535)	(34,208)
Total Primary Government Net Expense	<u>\$ (3,568,459)</u>	<u>\$ (7,003,741)</u>	<u>\$ (6,727,764)</u>

**CITY OF BRAINERD, MINNESOTA
CHANGES IN NET ASSETS (CONTINUED)
LAST THREE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	<u>Fiscal Year</u> <u>2004</u>	<u>Fiscal Year</u> <u>2005</u>	<u>Fiscal Year</u> <u>2006</u>
General Revenues and Other Changes in Net Assets			
Governmental Activities			
Property Taxes	\$ 2,505,085	\$ 2,981,121	\$ 3,355,375
Franchise Fees	322,225	320,854	106,462
Unrestricted Grants and Contributions	3,813,759	4,047,006	5,201,828
Unrestricted Investment Earnings	91,367	167,250	262,316
Gain on Sale of Capital Assets	44,197	3,091	4,059
Miscellaneous	273,790	1,026,579	217,823
Extraordinary Items	500,000	-	-
Transfers	(238,274)	(38,000)	-
Total Governmental Activities	<u>\$ 7,312,149</u>	<u>\$ 8,507,901</u>	<u>\$ 9,147,863</u>
Business-Type Activities			
Unrestricted Investment Earnings	584	-	-
Gain on Sale of Capital Assets	-	-	558
Transfers	238,274	38,000	-
Total Business-Type Activities	<u>238,858</u>	<u>38,000</u>	<u>558</u>
Total Primary Government	<u>\$ 7,551,007</u>	<u>\$ 8,545,901</u>	<u>\$ 9,148,421</u>
Change In Net Assets	\$ 3,982,548	\$ 1,542,160	\$ 2,420,657
Net Assets – Beginning of Year	29,525,624	33,508,172	37,443,167
Prior Period Adjustment	-	2,392,832	-
Net Assets – End of Year	<u>\$ 33,508,172</u>	<u>\$ 37,443,164</u>	<u>\$ 39,863,824</u>

Note: The City began to report accrual information when it implemented GASB 34 in fiscal year 2004.

**CITY OF BRAINERD, MINNESOTA
FUND BALANCES – GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	December 31,				
	1997	1998	1999	2000	2001
General Fund					
Unreserved	\$ 1,748,526	\$ 1,922,751	\$ 1,956,417	\$ 1,707,285	\$ 1,294,629
All other Governmental Funds					
Reserved Reported in:					
Debt Service Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved Reported in:					
Special Revenue Funds	816,901	461,172	1,104,214	1,103,883	1,475,929
Debt Service Funds	1,760,588	1,513,638	1,208,080	1,047,272	897,393
Capital Projects Funds	626,814	336,875	195,447	588,048	(91,603)
Total All Other Governmental Funds	<u>\$ 3,204,303</u>	<u>\$ 2,311,685</u>	<u>\$ 2,507,741</u>	<u>\$ 2,739,203</u>	<u>\$ 2,281,719</u>
 Total All Funds	 <u>\$ 4,952,829</u>	 <u>\$ 4,234,436</u>	 <u>\$ 4,464,158</u>	 <u>\$ 4,446,488</u>	 <u>\$ 3,576,348</u>

December 31,

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>\$ 1,692,313</u>	<u>\$ 2,139,549</u>	<u>\$ 2,327,159</u>	<u>\$ 2,812,743</u>	<u>\$ 3,020,929</u>
\$ -	\$ -	\$ 2,257,803	\$ 2,408,679	\$ 1,898,744
1,223,025	1,345,630	1,437,102	2,588,060	2,512,109
1,150,175	1,244,328	-	-	-
1,041,395	2,210,740	(97,256)	(26,237)	(636,003)
<u>\$ 3,414,595</u>	<u>\$ 4,800,698</u>	<u>\$ 3,597,649</u>	<u>\$ 4,970,502</u>	<u>\$ 3,774,850</u>
<u>\$ 5,106,908</u>	<u>\$ 6,940,247</u>	<u>\$ 5,924,808</u>	<u>\$ 7,783,245</u>	<u>\$ 6,795,779</u>

CITY OF BRAINERD, MINNESOTA
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Year Ended December 31,				
	1997	1998	1999	2000	2001
Revenues					
Property Taxes	\$ 2,024,238	\$ 2,069,322	\$ 2,125,824	\$ 2,173,375	\$ 2,321,695
Tax Increments	-	-	-	-	-
Licenses and Permits	134,622	135,475	169,478	149,697	173,753
Intergovernmental	4,017,324	3,516,706	4,442,480	4,006,170	4,144,099
Charges for Services	996,427	1,028,148	1,082,628	1,105,570	1,179,312
Investment Earnings	-	-	234,969	176,698	195,707
Fines and Forfeits	215,320	223,790	248,552	259,515	308,712
Special Assessments	423,838	476,376	687,461	394,032	467,229
Miscellaneous	759,898	417,361	285,476	335,710	243,695
Total Revenues	<u>8,571,667</u>	<u>7,867,178</u>	<u>9,276,868</u>	<u>8,600,767</u>	<u>9,034,202</u>
Expenditures					
Current:					
General Government	690,472	709,146	711,999	818,802	813,682
Public Safety	2,410,890	2,537,422	2,690,820	2,893,233	3,081,656
Public Works	781,477	744,971	767,644	1,181,777	1,278,546
Parks, Recreation and Forestry	871,426	883,025	1,071,262	1,073,942	1,042,966
Community Development	131,609	186,761	356,594	613,637	200,078
Other	1,430,733	914,808	1,133,708	1,059,405	1,171,739
Capital outlay	1,573,809	1,418,512	2,193,230	1,343,231	2,564,926
Debt Service					
Principal	727,633	925,000	952,932	949,098	984,269
Interest and Fiscal Charges	256,308	244,193	205,406	186,962	221,900
Total Expenditures	<u>8,874,357</u>	<u>8,563,838</u>	<u>10,083,595</u>	<u>10,120,087</u>	<u>11,359,762</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(302,690)</u>	<u>(696,660)</u>	<u>(806,727)</u>	<u>(1,519,320)</u>	<u>(2,325,560)</u>
Other Financing Sources (Uses)					
Sale of Property	43,615	30,435	274,361	11,225	1,321
Proceeds from Issuance of Debt	992,661	-	705,000	1,450,000	1,285,700
Discount on Bonds Issued	-	-	-	-	-
Transfer In	3,150,753	3,535,204	3,660,436	3,761,040	4,107,737
Transfer Out	(3,067,660)	(3,226,986)	(3,601,783)	(3,720,320)	(3,943,097)
Total Other Financing Sources (Uses)	<u>1,119,369</u>	<u>338,653</u>	<u>1,038,014</u>	<u>1,501,945</u>	<u>1,451,661</u>
Net Change In Fund Balances	<u>\$ 816,679</u>	<u>\$ (358,007)</u>	<u>\$ 231,287</u>	<u>\$ (17,375)</u>	<u>\$ (873,899)</u>
Debt Service as a Percentage of Noncapital Expenditures	13.5%	16.4%	14.7%	12.9%	13.7%

Year Ended December 31,

2002	2003	2004	2005	2006
\$ 1,791,488	\$ 2,072,758	\$ 2,415,281	\$ 2,849,417	\$ 3,016,993
-	-	406,258	496,114	452,553
305,848	361,726	562,291	540,090	337,136
6,420,594	7,397,643	7,682,697	6,664,282	6,863,725
1,345,931	1,152,933	1,522,208	1,734,287	1,648,788
90,412	88,513	91,766	166,453	259,871
279,427	217,768	248,158	287,883	372,041
643,849	735,694	1,495,290	1,096,865	571,551
457,510	563,407	1,846,288	1,370,823	1,153,959
<u>11,335,059</u>	<u>12,590,442</u>	<u>16,270,237</u>	<u>15,206,214</u>	<u>14,676,617</u>
967,976	936,609	1,868,683	2,071,739	2,172,030
3,421,068	3,535,279	3,850,724	4,009,980	4,448,159
1,409,149	1,748,742	2,098,001	2,292,971	2,378,538
1,081,891	783,494	723,352	805,662	918,144
348,563	959,396	1,059,913	654,439	1,800,849
1,823,019	2,227,846	-	-	-
3,777,077	6,946,969	7,943,118	2,233,115	4,279,728
772,628	857,059	1,135,089	2,095,083	1,844,552
222,820	333,299	511,587	468,491	431,389
<u>13,824,191</u>	<u>18,328,693</u>	<u>19,190,467</u>	<u>14,631,480</u>	<u>18,273,389</u>
<u>(2,489,132)</u>	<u>(5,738,251)</u>	<u>(2,920,230)</u>	<u>574,734</u>	<u>(3,596,772)</u>
30,769	481,270	-	1,321,703	48,635
2,499,709	5,288,844	1,918,000	-	2,560,670
-	-	(9,982)	-	-
5,891,556	6,131,180	4,622,316	4,765,724	4,889,671
(4,398,656)	(4,219,014)	(4,622,316)	(4,803,724)	(4,889,671)
<u>4,023,378</u>	<u>7,682,280</u>	<u>1,908,018</u>	<u>1,283,703</u>	<u>2,609,305</u>
<u>\$ 1,534,246</u>	<u>\$ 1,944,029</u>	<u>\$ (1,012,212)</u>	<u>\$ 1,858,437</u>	<u>\$ (987,467)</u>
9.9%	10.5%	14.6%	20.7%	16.3%

**CITY OF BRAINERD, MINNESOTA
 ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY
 LAST TEN FISCAL YEARS**

Payable Year	Residential Property (2)	Commercial/ Industrial Property	Other Property	Personal Property	Less: Captured Tax Increment
1997	\$ 2,774,440	\$ 3,166,526	\$ 3,381	\$ 158,535	\$ 245,578
1998	2,715,918	2,899,676	14,106	140,770	216,333
1999	2,592,471	2,728,592	13,909	99,338	170,594
2000	2,721,103	2,823,331	15,058	68,018	141,907
2001	2,869,208	3,041,792	17,841	66,199	152,504
2002	2,926,908	2,084,987	17,796	39,513	151,812
2003	3,164,524	2,205,370	42,467	41,242	202,790
2004	3,548,546	2,791,549	46,566	46,267	398,443
2005	4,087,678	3,024,866	49,693	49,555	545,252
2006	4,599,269	3,485,030	24,985	52,688	506,536

Source: Official Statements for Bond Issues and Crow Wing County, Minnesota Auditor's Office.

Notes:

- (1) The tax capacity (assessed taxable value) of the property is calculated by applying a statutory formula to the estimated market value of the property.
- (2) Residential property includes both residential homestead and non-homestead property.

Total Taxable Assessed Value (1)	Total Direct Tax Rate	Assessor's Estimated Market Value	Assessed Value as a Percentage of Actual Value
\$ 5,857,304	26.7 %	\$ 272,928,930	2.1 %
5,554,137	32.3	290,267,700	1.9
5,263,716	34.7	310,566,700	1.7
5,485,603	35.2	333,855,400	1.6
5,842,536	35.1	345,220,900	1.7
4,917,392	33.3	413,788,700	1.2
5,250,813	37.3	458,888,000	1.1
6,034,485	41.9	500,439,950	1.2
6,666,540	42.8	563,850,800	1.2
7,655,436	42.8	641,695,200	1.2

**CITY OF BRAINERD, MINNESOTA
 DIRECT AND OVERLAPPING PROPERTY TAX RATES
 LAST TEN FISCAL YEARS
 (RATE PER \$1,000 OF ASSESSED VALUE)**

City Direct Rate			
Fiscal Year	Basic Rate	General Obligation Debt Service	Total Direct
1997	26.7 %	N/A	26.7 %
1998	30.7	1.666	32.3
1999	30.2	4.491	34.7
2000	27.3	7.844	35.2
2001	29.0	6.151	35.1
2002	25.9	7.343	33.3
2003	27.3	9.982	37.3
2004	29.1	12.766	41.9
2005	31.6	11.110	42.8
2006	33.2	9.544	42.8

Source: Crow Wing County, Minnesota Auditor's Office

Overlapping Rates

School District 181	Crow Wing County	Other	Total Overlapping	Total Direct and Overlapping Tax Rate
54.4	26.6 %	0.7 %	81.7 %	108.4 %
50.5	27.2	0.8	78.5	110.9
54.2	28.7	0.9	83.9	118.6
48.3	29.7	0.9	78.9	114.1
45.7	28.9	0.9	75.5	110.6
22.4	38.2	1.3	61.9	95.2
26.2	34.7	1.4	62.3	99.6
24.0	32.3	1.4	57.7	99.6
24.3	37.8	1.4	63.5	106.2
23.0 %	36.3	1.4	60.7	103.5

**CITY OF BRAINERD, MINNESOTA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year	Taxes Levied for the Fiscal Year			Collected within the Fiscal Year of Levy	
	Operating Tax Levy	Debt Tax Levy	Total Tax Levy (1)	Amount	Percentage of Levy
1997	\$ 1,650,387	\$ 650,000	\$ 2,300,387	\$ 1,683,080	73.2 %
1998	1,705,890	650,000	2,355,890	1,746,140	74.1
1999	1,941,474	436,000	2,377,474	1,789,233	75.3
2000	1,850,474	630,000	2,480,474	1,900,558	76.6
2001	2,139,758	459,000	2,598,758	2,028,995	78.1
2002	1,259,414	361,072	1,620,486	1,376,129	84.9
2003	1,413,402	524,223	1,937,625	1,660,082	85.7
2004	1,730,103	770,311	2,500,414	2,158,830	86.3
2005	2,062,900	740,678	2,803,578	2,448,562	87.3
2006	2,467,225	730,775	3,198,000	3,133,533	98.0

Notes:

- (1) Total tax levy and current tax collections include property tax apportionments from Crow Wing County and homestead, disparity reduction credits and equalization aid from the State of Minnesota.

Collections in Subsequent Years	Total Collections to Date		Outstanding Delinquent Taxes	Percentage of Levy Outstanding
	Amount	Percentage of Levy		
\$ 617,307	\$ 2,300,387	100.0 %	\$ -	%
609,750	2,355,890	100.0	-	-
588,241	2,377,474	100.0	-	-
564,888	2,465,446	99.4	15,028	0.6
545,532	2,574,527	99.1	24,231	0.9
243,617	1,619,746	100.0	740	-
276,321	1,936,403	99.9	1,222	0.1
329,319	2,488,149	99.5	12,265	0.5
343,975	2,792,537	99.6	11,041	0.4
-	3,133,533	98.0	64,467	2.0

**CITY OF BRAINERD, MINNESOTA
PRINCIPAL TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO**

Taxpayer	2006			1997		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
KTJ Limited Partnership	\$ 265,378	1	3.5 %	\$ -		%
Brainerd Lakes Integrated Health Systems	254,328	2	3.3	-		-
Wausau Paper of Minnesota LLC	171,946	3	3.3	-		-
GJR Investments, LLP	100,992	4	3.3	-		-
Developers Diversified Realty	97,330	5	3.3	122,765	3	2.1
Individual	92,246	6	3.3	-		-
Progressive Property Management	81,728	7	3.3	-		-
Oak Ridge Professional Building	62,046	8	3.3	-		-
BN & SF Railway Co.	56,264	9	3.3	101,687	6	1.7
Individual	53,257	10	3.3	-		-
Potlatch Forests, Inc.	-		-	330,539	1	5.6
Brainerd Medical Properties	-		-	131,004	2	2.2
Holiday Inn	-		-	108,483	4	1.9
Property - 3	-		-	102,218	5	1.7
Individual	-		-	96,304	7	1.6
G G Corp	-		-	92,119	8	1.6
Minnegasco, Inc.	-		-	77,154	9	1.3
Individual	-		-	68,285	10	1.2
Total	<u>\$ 1,235,515</u>		<u>33.4 %</u>	<u>\$ 1,230,558</u>		<u>21.0 %</u>

Source: Crow Wing County Auditor's Office.

**CITY OF BRAINERD, MINNESOTA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year	Governmental Activities					
	General Obligation Bonds	Improvement Bonds	Revenue Bonds	Tax Increment Bonds	Capital Lease	Other Long-Term Debt
1997	\$ 1,677,500	\$ 3,025,000	\$ 225,000	\$ 190,000	\$ -	\$ -
1998	1,292,500	2,615,000	205,000	80,000	-	-
1999	825,000	2,495,000	570,000	-	-	-
2000	1,036,045	2,835,000	520,000	-	-	300,000
2001	541,616	3,725,000	470,000	-	-	270,160
2002	1,561,566	4,465,000	1,715,000	-	-	247,582
2003	1,314,066	9,205,000	1,655,000	-	-	223,023
2004	1,727,147	9,790,000	1,355,000	-	-	902,627
2005	1,431,475	8,820,000	1,235,000	-	-	193,216
2006	1,132,500	9,330,000	1,185,000	-	31,509	716,800

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. See the *Demographic and Economic Statistics* schedule on page 127 for personal income and population data.

Business-Type Activities					
General Obligation Bonds	Revenue Bonds	Capital Lease	Total Primary Government	Percentage of Personal Income	Per Capita
\$ -	\$ -	\$ -	\$ 5,117,500	48.87 %	\$ 414
-	-	-	4,192,500	66.92	339
-	-	-	3,890,000	71.08	315
-	-	-	4,691,045	70.54	333
-	-	-	5,006,776	69.17	353
-	-	-	7,989,148	43.40	566
-	-	-	12,397,089	28.03	883
-	-	-	13,774,774	28.15	933
-	-	-	11,679,691	N/A	832
-	-	-	12,395,809	N/A	843

**CITY OF BRAINERD, MINNESOTA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
DECEMBER 31, 2006**

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Overlapping:			
Crow Wing County General Obligation Bonds	\$ 55,435,000	17.4 %	\$ 9,645,690
ISD No. 181 General Obligation Bonds	71,440,000	9.7	<u>6,929,680</u>
Total Overlapping			16,575,370
 City of Brainerd Direct Debt	 1,132,500	 100.0	 <u>1,132,500</u>
 Total Direct and Overlapping Debt:			 <u><u>\$ 17,707,870</u></u>

Sources: Taxable value data used to estimate applicable percentages provided by the County Property Appraiser. Debt outstanding data provided by each governmental unit.

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

**CITY OF BRAINERD, MINNESOTA
COMPUTATION OF LEGAL DEBT MARGIN
LAST TEN FISCAL YEARS**

	Fiscal Year			
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Debt Limit	\$ 5,458,579	\$ 5,805,354	\$ 6,211,334	\$ 6,677,108
Total Net Debt Applicable to Limit	<u>1,677,500</u>	<u>1,292,500</u>	<u>825,000</u>	<u>1,036,045</u>
Legal Debt Margin	<u><u>\$ 3,781,079</u></u>	<u><u>\$ 4,512,854</u></u>	<u><u>\$ 5,386,334</u></u>	<u><u>\$ 5,641,063</u></u>
Total Net Debt Applicable to Limit as a Percentage of Debt Limit	30.73%	22.26%	13.28%	15.52%

Legal Debt Margin Calculation for Fiscal Year 2006

Estimated Market Value	\$ 641,695,200
Debt Limit (2% of Estimated Market Value)	12,833,904
Debt Applicable to Limit	<u>1,132,500</u>
Legal Debt Margin	<u><u>\$ 11,701,404</u></u>

Fiscal Year					
<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 6,904,418	\$ 8,275,774	\$ 9,177,760	\$ 10,008,799	\$ 11,277,016	\$ 12,833,904
<u>541,616</u>	<u>1,561,566</u>	<u>1,314,066</u>	<u>1,727,147</u>	<u>1,431,475</u>	<u>1,132,500</u>
<u><u>\$ 6,362,802</u></u>	<u><u>\$ 6,714,208</u></u>	<u><u>\$ 7,863,694</u></u>	<u><u>\$ 8,281,652</u></u>	<u><u>\$ 9,845,541</u></u>	<u><u>\$ 11,701,404</u></u>
7.84%	18.87%	14.32%	17.26%	12.69%	8.82%

**CITY OF BRAINERD, MINNESOTA
 PLEDGED-REVENUE COVERAGE
 LAST TEN YEARS
 (DOLLARS IN THOUSANDS)**

Special Assessment / Improvement Bonds

Fiscal Year	Revenue	Debt Service		Coverage
		Principal	Interest	
1997	\$ 542,343	\$ 320,000	\$ 135,014	1.19
1998	622,767	410,000	132,177	1.15
1999	491,439	440,000	124,343	0.87
2000	430,671	450,000	108,233	0.77
2001	635,398	410,000	112,440	1.22
2002	707,224	465,000	139,726	1.17
2003	846,455	560,000	158,621	1.18
2004	1,846,430	625,000	286,772	2.03
2005	1,504,742	970,000	316,734	1.17
2006	898,060	1,120,000	296,104	0.63

Notes: Details regarding the City's outstanding debt can be found in Note 3 of the notes to the financial statements.

**CITY OF BRAINERD, MINNESOTA
 PLEDGED-REVENUE COVERAGE (CONTINUED)
 LAST TEN YEARS
 (DOLLARS IN THOUSANDS)**

Fiscal Year	Revenue Bonds					Coverage
	Revenue	Less: Operating Expense	Net Available Revenue	Debt Service		
				Principal	Interest	
1997	\$ 24,313	\$ -	\$ 24,313	\$ -	\$ 4,981	4.88
1998	29,223	-	29,223	20,000	10,860	0.95
1999	30,932	-	30,932	20,000	10,000	1.03
2000	31,993	-	31,993	50,000	44,244	0.34
2001	31,590	-	31,590	50,000	33,762	0.38
2002	31,191	-	31,191	55,000	30,899	0.36
2003	123,966	-	123,966	25,000	51,517	1.62
2004	182,179	-	182,179	45,000	61,660	1.71
2005	105,402	-	105,402	120,000	56,779	0.60
2006	103,525	-	103,525	50,000	53,718	1.00

Tax Increment Bonds

Revenue	Debt Service		Coverage
	Principal	Interest	
\$ 169,989	\$ 115,000	\$ 16,383	1.29
55,177	110,000	8,590	0.47
1,260	80,000	2,746	0.02
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-

**CITY OF BRAINERD, MINNESOTA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS**

Fiscal Year	Population (1)	Personal Income (thousands of dollars)	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate (4)
1997	12,353	\$ 250,074	\$ 20,244	7,360	5.7%
1998	12,353	280,574	22,713	7,276	4.5
1999	12,353	276,497	22,383	7,219	4.4
2000	13,178	309,749	23,505	7,270	4.6
2001	13,421	327,633	24,412	7,359	4.6
2002	13,675	335,954	24,567	7,395	5.3
2003	13,780	341,234	24,763	7,270	6.0
2004	13,798	362,391	26,264	7,301	5.1
2005	13,798	N/A	N/A	7,245	4.7
2006	13,849	N/A	N/A	7,096	4.8

Notes:

- (1) Population is shown as the latest federal census data/state demographer's estimate.
- (2) Office of State Demographer; which uses U.S. Department of Commerce, Bureau of Economic Analysis, Washington D.C., Per Capita Income for Crow Wing County, Minnesota in which the City of Brainerd resides.
- (3) Brainerd Public School District # 181, Kindergarten - Grade 12.
- (4) Minnesota Department of Economic Security represent the average annual rates for Crow Wing County, Minnesota in which the City of Brainerd resides.

**CITY OF BRAINERD, MINNESOTA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

<u>Taxpayer</u>	<u>2006</u>			<u>1997</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>
Independent School District 181 (1)	1,700	1	12.28% %	780	1	6.31% %
St. Joseph's Medical Center	975	2	7.04%	684	3	5.54%
Brainerd Regional Human Services Center	677	3	4.89%	689	2	5.58%
Madden's, Inc.	500	4	3.61%	350	6	2.83%
Crow Wing County	475	5	3.43%	380	5	3.08%
Bisys Retirement Services (2)	404	6	2.92%	320	7	2.59%
Mills Fleet Farm	340	7	2.46%	300	8	2.43%
Bethany Good Samaritan Village	325	8	2.35%			0.00%
Central Lakes Community and Technical College (3)	313	9	2.26%	350	6	2.83%
Brainerd Medical Center	310	10	2.24%			0.00%
Potlach	-		0.00%	675	4	5.46%
Wal-Mart	-		0.00%	270	9	2.19%
Clow Stamping	-		0.00%	200	10	1.62%
Total	\$ 6,019		43.46% %	\$ 4,998		40.46% %

Source: Crow Wing County Auditor's Office

Notes:

- (1) Includes 1,000 permanent and 700 temporary/casual employees.
- (2) Bisys Retirement Services was known as Universal Pensions, Inc. in 1997.
- (3) Central Lakes Community and Technical College was known as Central Lakes Community College in 1997.

**CITY OF BRAINERD, MINNESOTA
FULL-TIME EQUIVALENT EMPLOYEES
CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN YEARS**

	Full-time-Equivalent Employees as of December 31,					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
General Government						
Management Services	2.00	2.00	2.00	2.00	2.00	2.00
Finance	3.00	3.00	3.00	3.00	3.00	3.00
Planning	2.00	2.00	2.00	2.00	2.00	2.00
Building	1.00	1.00	1.00	2.00	2.00	2.00
Total General Government	<u>8.00</u>	<u>8.00</u>	<u>8.00</u>	<u>9.00</u>	<u>9.00</u>	<u>9.00</u>
Public Safety						
Police						
Officers	23.00	24.00	24.00	24.00	24.00	25.00
Civilians (1)	5.00	5.00	6.00	6.00	7.00	7.89
Total Police	<u>28.00</u>	<u>29.00</u>	<u>30.00</u>	<u>30.00</u>	<u>31.00</u>	<u>32.89</u>
Fire						
Officers	7.00	6.00	6.00	7.00	7.00	7.00
Civilians	1.00	1.00	1.00	1.00	1.00	1.00
Paid On-Call Volunteers (1)	3.83	4.24	4.38	4.23	5.05	5.10
Total Fire	<u>11.83</u>	<u>11.24</u>	<u>11.38</u>	<u>12.23</u>	<u>13.05</u>	<u>13.10</u>
Total Public Safety	<u>39.83</u>	<u>40.24</u>	<u>41.38</u>	<u>42.23</u>	<u>44.05</u>	<u>45.99</u>
Full-time-Equivalent Employees as of December 31,						
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Public Works						
Engineering (1)	5.86	5.50	5.21	6.15	6.25	6.55
Other	-	-	-	-	-	-
Total Public Works	<u>5.86</u>	<u>5.50</u>	<u>5.21</u>	<u>6.15</u>	<u>6.25</u>	<u>6.55</u>
Parks and Recreation (1)	15.67	13.85	18.76	20.81	18.32	16.22
Street, Sanitary and Storm Sewer	10.00	10.00	10.00	11.00	11.00	10.00
Transit	N/A	N/A	N/A	N/A	N/A	3.00
Arena	3.75	4.00	4.00	3.00	3.00	3.00
Total	<u>83.11</u>	<u>81.59</u>	<u>87.35</u>	<u>92.19</u>	<u>91.62</u>	<u>93.76</u>

Source: City Finance Office.

Notes:

(1) Full-time equivalents for part time and temporary positions, is calculated by taking the total temporary hours paid divided by 1,824 hours. It is assumed that a full-time person will work 40 hours a week for annual hours of 2,080 less vacation, holidays, and sick time.

(2) Information not available is labeled N/A.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
2.00	2.00	2.00	2.00
3.00	3.00	3.00	3.00
2.00	2.00	2.00	2.00
2.00	2.00	4.00	4.00
<u>9.00</u>	<u>9.00</u>	<u>11.00</u>	<u>11.00</u>

26.00	30.00	29.00	31.00
8.93	7.84	9.44	9.95
<u>34.93</u>	<u>37.84</u>	<u>38.44</u>	<u>40.95</u>

7.00	7.00	8.00	8.00
1.00	1.00	1.00	1.00
5.63	6.10	5.10	5.79
<u>13.63</u>	<u>14.10</u>	<u>14.10</u>	<u>14.79</u>

<u>48.56</u>	<u>51.94</u>	<u>52.54</u>	<u>55.74</u>
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<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
5.79	7.10	7.06	6.24
-	-	1.00	1.00
<u>5.79</u>	<u>7.10</u>	<u>8.06</u>	<u>7.24</u>
14.81	13.93	15.25	15.35
10.00	10.00	10.00	10.00
1.00	1.00	1.00	1.00
3.00	3.00	3.50	3.50
<u>92.16</u>	<u>95.97</u>	<u>101.35</u>	<u>103.83</u>

**CITY OF BRAINERD
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year				
	1997	1998	1999	2000	2001
General Government					
Elections	-	2	-	2	-
Registered voters	-	7,288	-	8,081	-
Number of votes cast	-	4,648	-	5,320	-
Voter participation (registered)	N/A	63.8%	N/A	65.8%	N/A
Public Safety					
Police					
Part I Crimes (1)	1,197	991	963	1,033	994
Part II Crimes (2)	1,814	1,744	1,886	1,946	1,969
Total Incidents	8,212	9,500	12,211	12,346	13,933
Fire					
Fire/Other	289	311	372	399	381
Rescue	110	118	116	118	121
Inspections					
Building Permits Issued	191	208	257	348	359
Value of Building Permits	\$ 9,313,600	\$ 8,924,894	\$ 15,455,338	\$ 11,080,703	\$ 19,925,397
Public Works					
General Maintenance (hours)	N/A	N/A	N/A	9,190	10,166
Traffic Control (hours)	N/A	N/A	N/A	1,982	1,739
Snow Removal (hours)	N/A	N/A	N/A	3,082	2,978
Culture and Recreation					
Parks					
Park Maintenance (hours)	30,630	27,054	36,522	40,517	35,976
Sanitary Sewer					
Sewer Work (hours)	N/A	N/A	N/A	5,475	5,041
Storm Sewer					
Storm Sewer Work (hours)	N/A	N/A	N/A	802	877
Parking					
Parking Leases	185	185	185	185	185
Transit					
Total number of Route Miles (3)	121,539	120,928	119,988	131,083	138,509
Number of Passengers	80,126	77,314	77,182	81,236	80,194

Source: Various City Departments

- Notes:**
- (1) Part I crimes includes murder, rape, robbery, burglary, felony theft, serious assault, and arson.
 - (2) Part II crimes includes fraud, vandalism, weapons, drugs, simple assault, DWI, juvenile delinquency, disorderly conduct, etc.
 - (3) Includes mileage for both City and County rides from 2002 to present.
 - (4) Information not available is labeled N/A.

Fiscal Year				
2002	2003	2004	2005	2006
2	-	2	-	2
6,807	-	8,162	-	7,687
4,805	-	6,028	-	4,513
70.6%	N/A	73.9%	N/A	58.7%
1,057	1,102	1,088	1,050	899
1,913	1,752	1,967	1,853	2,149
14,472	15,433	16,990	19,755	20,028
422	401	430	381	418
103	140	109	84	84
483	441	406	474	413
\$ 36,425,423	\$ 31,452,280	\$ 51,509,900	\$ 43,445,350	\$ 17,201,599
10,265	11,555	10,097	9,545	10,475
1,799	1,310	1,422	1,083	1,577
1,681	1,760	3,083	4,276	1,689
32,145	29,573	27,712	30,504	30,686
5,474	5,070	5,098	4,812	5,734
1,582	1,106	1,101	1,084	1,325
185	185	185	185	185
170,390	241,927	276,707	297,336	290,054
78,177	74,860	72,765	69,529	68,777

**CITY OF BRAINERD, MINNESOTA
GENERAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN YEARS**

Function/Program	Fiscal Year				
	1997	1998	1999	2000	2001
Public Safety					
Police					
Stations	1	1	1	1	1
Patrol Units	8	8	8	8	10
Other Specialty Units	3	3	3	3	3
Fire					
Stations	1	1	1	1	1
Fire Trucks	7	7	7	7	7
Other Rescue Units	4	5	5	6	6
Fire Rating	5	5	5	5	5
Public Works					
Vehicles	39	39	39	39	39
Streets (Miles) (1)	72	77	77.2	77.5	80.3
Sidewalks (Miles)	27	27	27	27	27
Culture and Recreation					
Parks					
Parks	15	15	15	15	16
Park Acres	207	207	207	207	319
Park Shelters	10	10	10	10	10
Basketball Courts	1	1	1	1	1
Boat Launches	3	3	3	3	3
Fishing Pier	3	3	3	3	3
Skating Rinks	8	8	8	8	8
Soccer Fields	1	1	1	1	1
Softball Fields	6	6	6	6	6
Swimming Beach	1	1	1	1	1
Tennis Courts	5	5	5	5	5
Volleyball Courts	2	2	2	2	2
Baseball Fields	6	6	6	6	6
Sanitary Sewer					
Collection System (Miles)	57.5	57.5	57.7	57.7	57.7
Storm Sewer					
Pipe (Miles)	15	15	15	15	15
Parking					
Paylots / Permit Parking	9	9	9	9	9
Transit					
Buses (2)	6	6	6	6	6

Source: Various City Departments

Notes:

- (1) Includes both paved and unpaved roads.
- (2) Beginning in 2003, the City and County began purchasing buses together.

Fiscal Year				
2002	2003	2004	2005	2006
1	1	1	1	1
10	10	11	11	11
4	5	5	6	6
1	2	2	2	2
7	7	7	8	9
6	6	8	9	12
5	5	5	5	4
39	39	39	39	39
80.3	81.4	84.5	85.2	85.2
27	27	27.3	28.6	28.6
16	16	16	16	16
319	319	319	319	319
10	10	10	10	11
1	1	1	1	1
3	3	3	3	3
3	3	3	3	3
8	8	8	8	6
1	1	1	1	1
6	6	6	6	6
1	1	1	1	1
5	5	5	5	5
2	2	2	2	2
6	6	6	6	6
57.7	58.5	73.8	74.2	75.1
15	15.3	16	16.4	16.6
9	9	9	9	9
6	5.5	5	4.5	4

OTHER REPORTS SECTION

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

Honorable Mayor and
Members of the City Council
City of Brainerd
Brainerd, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Brainerd, Minnesota as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 20, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Brainerd's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Brainerd's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency 2006-01 described in the accompanying schedule of findings and questioned costs to be significant deficiency in internal control over financial reporting.

Honorable Mayor and
Members of the City Council
City of Brainerd

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the deficiencies described in the accompanying schedule of findings and questioned costs as items 2006-02 and 2006-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, and state and federal grantor agencies; and is not intended to be and should not be used by anyone other than these specified parties.



LarsonAllen LLP

Brainerd, Minnesota
June 20, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and
Members of the City Council
City of Brainerd
Brainerd, Minnesota

Compliance

We have audited the compliance of the City of Brainerd, Minnesota, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Housing and Redevelopment Authority of Brainerd (HRA), which received \$1,815,612 in federal awards which is not included in the accompanying schedule of expenditures of federal awards for the year ended December 31, 2006. Our audit, described below did not include the operations of the HRA because the component unit engaged for its own separate audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Honorable Mayor and
Members of the City Council
City of Brainerd

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major program that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a major program will not be prevented or detected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, management, and state and federal grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.



LarsonAllen LLP

Brainerd, Minnesota
June 20, 2007

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2006**

FEDERAL AGENCY/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CODA NUMBER	FEDERAL EXPENDITURES
PRIMARY GOVERNMENT		
U.S. DEPARTMENT OF TRANSPORTATION		
Passed Through Minnesota Department of Transportation		
Federal Transit Metropolitan Planning Grant	20.505	\$ 3,028
Formula Grants for Other than Nonurbanized Areas	20.509	229,892
Passed Through State Department of Public Safety		
State and Community Highway Safety	20.600	5,568
Federal Emergency Management Agency	97.036	38,660
Total U.S. Department of Transportation		<u>277,148</u>
Total Primary Government Federal Awards		277,148
DISCRETELY PRESENTED COMPONENT UNITS		
U.S. DEPARTMENT OF TRANSPORTATION		
Passed Through Minnesota Department of Transportation		
Airport Improvement Program	20.106	<u>4,073,306</u>
Total Federal Awards		<u>\$ 4,350,454</u>

Notes to Schedule of Expenditures of Federal Awards:

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the City of Brainerd and its discretely presented component unit the Brainerd Lakes Regional Airport. The City's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the basic financial statements of the City.

REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and
Members of the City Council
City of Brainerd
Brainerd, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 20, 2007.

The City's basic financial statements include the operations of Brainerd Public Utilities and the Housing and Redevelopment Authority of Brainerd (HRA). Our audit, described below, did not include the operations of Brainerd Public Utilities or the HRA because each of the component units engaged for its own separate audit that included the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, county and city miscellaneous provisions and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the City complied with the material terms and conditions of applicable legal provisions referred to in the preceding paragraph, except as noted in the accompanying schedule of findings and recommendations at item 2006-04.

This report is intended solely for the information and use of management, the City Council, and the Office of the State Auditor of Minnesota and is not intended to be and should not be used by anyone other than those specified parties.



LarsonAllen LLP

Brainerd, Minnesota
June 20, 2007

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2006**

SIGNIFICANT DEFICIENCY

2006-01 COMPUTER SECURITY

Criteria: Computer system controls are essential in providing accurate and sound financial reporting information for the City and minimizing the City's susceptibility to fraudulent activity.

Condition: We noted certain areas where the City can improve its computer controls including back-up tape storage procedures, intrusion detection protection security, and monitoring system administrator use.

Cause: Not known.

Effect: The City is more susceptible to security violations and safeguarding of vital City information.

Recommendation: We recommend the City review its computer controls, including location for storing back-up tapes; evaluate the risks/needs associated with intrusion detection systems, and assignment of an individual to monitor the system administrator activity on a periodic basis.

MATERIAL WEAKNESSES

2006-02 YEAR END CLOSING PROCEDURES

Criteria: The City of Brainerd's management is responsible for establishing and maintaining internal controls for the proper recording of all the City's accounting transactions, including account coding, reporting of accruals and net assets, and cash flow reporting.

Condition: As part of the audit we proposed material adjustments and passed adjustments for closing the City's books at year end, recording of accruals, reclassifications to the proper accounts, and note disclosure preparation.

Cause: The City has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the City to provide accurate accrual basis financial information.

Recommendation: We recommend City management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in recording transactions, accruals, and reclassifications and develop internal control policies to ensure proper recording of these items.

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2006**

MATERIAL WEAKNESSES (Continued)

2006-03 FINANCIAL STATEMENT PREPARATION

Criteria: City management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with Governmental Accounting Standards Board Statement No. 34.

Condition: As part of the audit, management requested us to prepare a draft of City financial statements, including the related notes to the financial statements.

Cause: The City has a limited number of personnel with limited financial reporting experience.

Effect: The design of the controls over the financial reporting process would affect the ability of the City to report financial data consistently with the assertions of management in the financial statements.

Recommendation: We recognize the fact that the City has made a cost-benefit decision to engage the audit firm to draft its financial statements. We recommend that the City be aware of the requirements for fair presentation of the financial statements in accordance with the Governmental Accounting Standards Board Statement No. 34. Should the City elect, based upon cost-benefit analysis and increased financial staffing, to establish the full oversight of the financial statement preparation at an appropriate level, we suggest management establish effective review policies and procedures including but not limited to the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the entries; review the adequacy of financial statement disclosures by completing a disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2006**

MINNESOTA LEGAL COMPLIANCE

2006-04 COLLATERAL ASSIGNMENT

Criteria: *Minnesota Statute* §118A.03 requires that, to the extent that deposited funds exceed federal deposit insurance, the City must obtain an assignment of pledged collateral in an amount equal to 110 percent of the amount on deposit plus accrued interest.

Condition: The City of Brainerd did not have sufficient pledged collateral to cover 110 percent of uninsured deposits at December 31, 2006.

Cause: The City did not monitor its collateral coverage sufficiently to ensure 110 percent of uninsured deposits were adequately covered by pledged collateral at year-end.

Effect: Without proper collateralization the City is not in compliance with related statutes and may be susceptible to financial loss if the bank were not be able to honor the City's outstanding deposits.

Recommendation: The City should include collateral monitoring as a part of the monthly bank reconciliation process, with additional consideration at year-end to address the large tax and aid payments that are received in December.

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None.