

CITY OF BRAINERD, MINNESOTA

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED DECEMBER 31, 2017

PREPARED BY:
Administrator's Office

Administrator
Cassandra Torstenson

**CITY OF BRAINERD, MINNESOTA
TABLE OF CONTENTS
DECEMBER 31, 2017**

	<u>PAGE</u>
INTRODUCTORY SECTION	
Letter of Transmittal	1-5
GFOA Certificate of Achievement	6
Organizational Chart	7
Principal City Officials	8
 FINANCIAL SECTION	
Independent Auditors' Report	9-11
Management's Discussion and Analysis	12-21
 <u>Basic Financial Statements</u>	
Statement of Net Position	22-23
Statement of Activities	24-25
Balance Sheet – Governmental Funds	26-27
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Governmental Activities	28
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	29-30
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities – Governmental Activities	31
Statement of Fund Net Position – Proprietary Funds	32
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	33
Statement of Cash Flows – Proprietary Funds	34
Notes to Basic Financial Statements	35-96
 <u>Required Supplementary Information</u>	
Brainerd Fireman's Relief Association – Schedule of Changes in the Net Pension Asset and Related Ratios	97
Schedule of Funding Progress – Other Postemployment Benefits	98
Schedule of the City's Proportionate Share of the Net Pension Liability	99
Schedule of City Pension Contributions – Last Four Years	100
Budgetary Comparison Schedule – General Fund	101
Budgetary Comparison Schedule – Public Safety Fund	102
Budgetary Comparison Schedule – Park and Recreation Fund	103
Budgetary Comparison Schedule – Street Fund	104
Budgetary Comparison Schedule – Economic Development Authority Fund	105
Notes to Required Supplementary Information	106
 <u>Combining and Individual Nonmajor Fund Statements and Schedules</u>	
Combining Balance Sheet – Nonmajor Governmental Funds	107-108
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	109-110
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Recycling Fund	111
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – City Parking Lots Fund	112

**CITY OF BRAINERD, MINNESOTA
TABLE OF CONTENTS (CONTINUED)
DECEMBER 31, 2017**

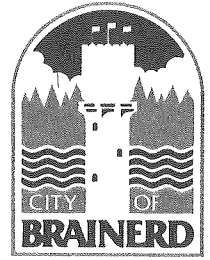
	<u>PAGE</u>
FINANCIAL SECTION (CONTINUED)	
<u>Combining and Individual Nonmajor Fund Statements and Schedules (Continued)</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Transit Fund	113
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Permanent Improvement Fund	114
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Mayor’s Contingency Fund	115
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Hydrant Rental and Electric Current Fund	116
<u>Component Unit Financial Statements</u>	
Brainerd Lakes Regional Airport	
Reconciliation of the Balance Sheet to the Statement of Net Position	117
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	118
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	119
Brainerd Public Library	
Reconciliation of the Balance Sheet to the Statement of Net Position	120
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	121
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	122
STATISTICAL INFORMATION SECTION (UNAUDITED)	
Net Position by Component – Last Ten Fiscal Years	123-124
Changes in Net Position – Last Ten Fiscal Years	125-128
Fund Balances – Governmental Funds – Last Ten Fiscal Years	129-130
Changes in Fund Balances – Governmental Funds – Last Ten Fiscal Years	131-132
Net Tax Capacity and Estimated Market Value of Property – Last Ten Fiscal Years	133-134
Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years	135-136
Property Tax Levies and Collections – Last Ten Fiscal Years	137-138
Principal Taxpayers – Current Year and Ten Years Ago	139
Ratio of Outstanding Debt by Type – Last Ten Fiscal Years	140-141
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Debt Per Capita – Last Ten Fiscal Years	142
Direct and Overlapping Governmental Activities Debt – December 31, 2017	143
Computation of Legal Debt Margin – Last Ten Fiscal Years	144-145
Pledged-Revenue Coverage – Last Ten Fiscal Years	146-147
Demographic and Economic Statistics – Last Ten Calendar Years	148
Principal Employers – Current Year and Ten Years Ago	149
Full-Time Equivalent Employees – City Government Employees by Function/Program – Last Ten Years	150-151
Operating Indicators by Function/Program – Last Ten Years	152-153
General Asset Statistics by Function/Program – Last Ten Years	154-155

**CITY OF BRAINERD, MINNESOTA
TABLE OF CONTENTS (CONTINUED)
DECEMBER 31, 2017**

	<u>PAGE</u>
OTHER REPORTS SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	156-157
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	158-159
Schedule of Expenditures of Federal Awards	160
Independent Auditors' Report on Minnesota Legal Compliance	161
Schedule of Findings and Questioned Costs	162-163

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INTRODUCTORY SECTION



www.ci.brainerd.mn.us

June 22, 2018

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 (the City) for the fiscal year ended December 31, 2017.

This report consists of management's representations concerning the finances of the City of Brainerd (the City). 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's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City'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's financial statements have been audited by CliftonLarsonAllen 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 for the fiscal year ended December 31, 2017 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 unmodified opinion that the City's financial statements for the fiscal year ended December 31, 2017 are fairly presented in conformity with GAAP. The independent auditors' 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's MD&A can be found immediately following the report of the independent auditors.

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 an estimated population of 13,679. The City 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 for the upcoming calendar/fiscal year. The City Administrator and Finance Director then present this proposed budget to the President of the Council and the Chair of the Personnel and Finance Committee for initial review. The Council President and Personnel and Finance Committee Chair then present their recommendation to the Council. 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 (e.g., General 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. Departmental appropriations are approved for payment by Council action at each regular City Council meeting. To provide the elected officials a further understanding of budgetary activity, a monthly financial report is provided to the City Council by the Finance Director. Budget-to-actual comparisons are provided in this report for each individual governmental working fund. For the General Fund, Public Safety Fund, Park and Recreation Fund, Street Fund, and Economic Development Fund this comparison is presented starting on page 101 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 107.

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 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 450 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.

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, and Minnesota Department of Natural Resources have their regional operations located in the Brainerd area, further diversifying the local job market.

The City's economic environment has improved since the Great Recession. The local economy seems to have stabilized. The City is experiencing a slow recovery similar to the national economy. The City is a regional center in the state which brings a great deal of commerce to the area which assists the local economy.

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

Relevant Financial Policies and Long-term Financial Planning

The City Council has adopted financial management policies in order to allow for the planning of adequate funding of services desired by the public, to manage City finances wisely, and to carefully account for public funds. The financial management policies include: fund balance policies; annual budgeting policies; debt management policies; investment policies; credit card policies; capitalization policies; and internal control policies.

The City's fund balance policy is the City will maintain spendable-unassigned portion of the fund balance in a range equal to 35 – 50% of the working funds current year operating expenditures. The percentage of unassigned fund balance at December 31, 2017 is 150%. However, the combined "working funds" which include the General, Public Safety, Park and Recreation, and Street Funds are only at 39% of expenditures at December 31, 2017.

The City typically issues debt for significant infrastructure projects, using revenue from identified beneficiaries as the source of repayment. The City has achieved a bond rating of AA- from Standard & Poor's. This rating reflects the status of the City with very strong budget flexibility, liquidity, strong management conditions, adequate budgetary performance, and debt and contingent liability profile, with an improving economy, and strong institutional framework.

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:

- Industrial Park. The Brainerd Economic Development Authority (EDA) and the City Council continue to market the Brainerd Industrial Park (the Park). In 2009, the industrial Park was expanded and through the use of a grant, infrastructure was constructed. The park was one of the first regions in the State to receive a “Shovel Ready” certification. The certification means that the building sites have all the appropriate preliminary work done to expedite the construction process. The lots are graded and “pad ready,” offering transportation, electric, water, gas, and fiber optic infrastructure is already in place.
- Sidewalk/Trail Expansion. The 2014 State Legislature appropriated bonding funds for constructing the Cuyuna Lakes State Trail through Brainerd. Also, a Minnesota Department of Transportation Alternatives Program grant was awarded to the City to extend sidewalks in 2019 on S. 6th Street (B371) from Joseph Drive to Industrial Park Boulevard.
- Riverfront Project. The Mississippi River runs through the City of Brainerd. The City Council appointed a steering committee to develop riverfront improvement concepts for a 2 mile section of the Mississippi River. The committee submitted a plan recommendation to the City Council which it accepted. The City also received a grant from a local organization for three years (2015-2017) to take the concepts to the next level.
- Brainerd Lakes Regional Airport. The Airport is a joint ownership between the City of Brainerd and Crow Wing County. A variety of other aviation-related businesses, as well as a full-service fixed base operator, are also located at the Airport with additional land available for private hangar construction and business development. In 2017, the City continued its construction of a 2.6 mile expansion of City water and sewer to the airport.
- Other. Several street, storm and sanitary sewer reconstruction and resurfacing projects were started and/or completed in 2017 with a value of approximately \$6.4 million. The City continues to upgrade its existing streets and infrastructure as well as developing, improving, and officially adopting a capital improvement infrastructure plan.

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 CAFR for the fiscal year ended December 31, 2016. This was the 24th 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,



Cassandra Torstenson
City Administrator



Connie L. Hillman
Finance Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Brainerd
Minnesota**

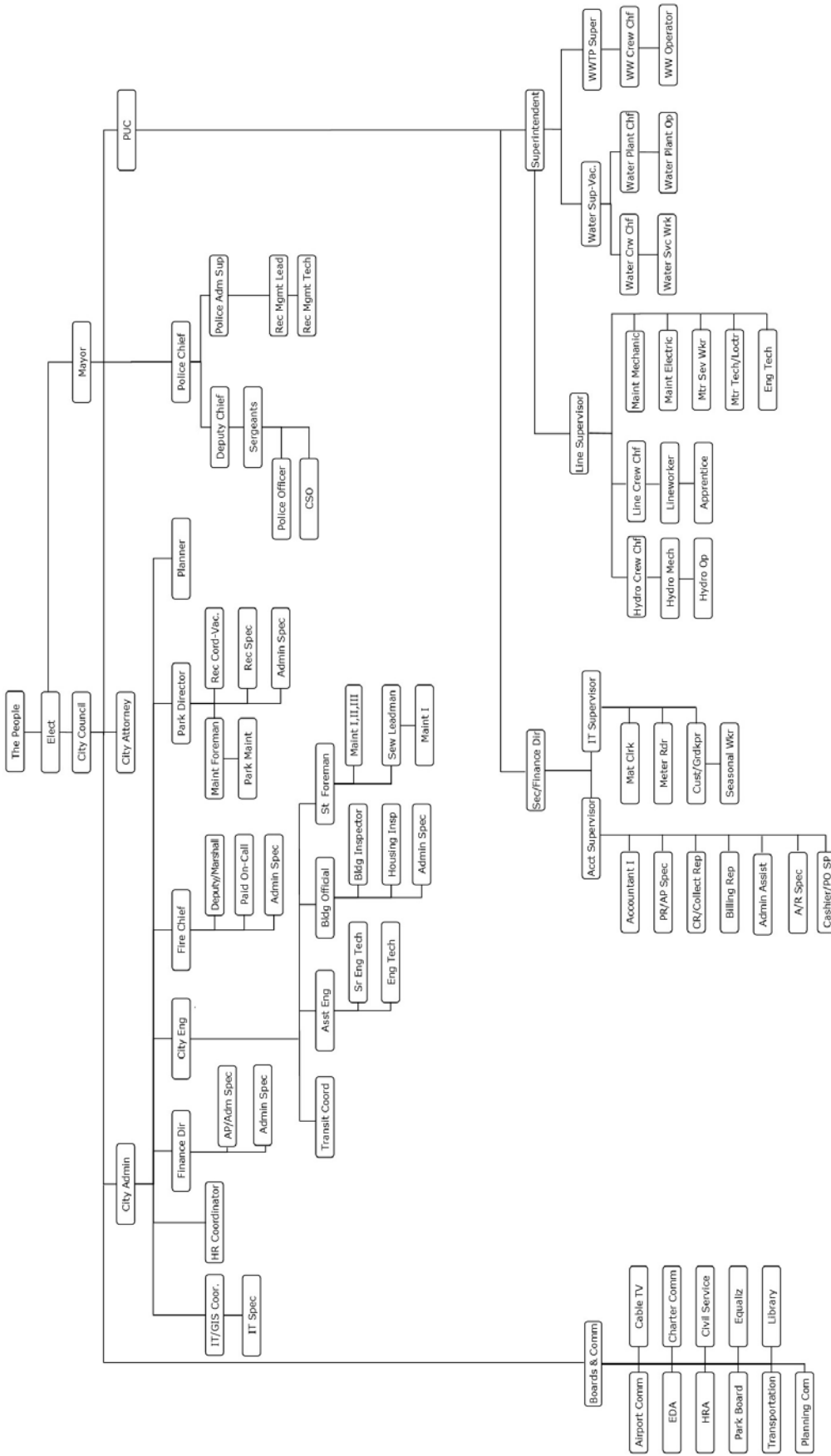
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2016

Christopher P. Morill

Executive Director/CEO

City of Brainerd, Minnesota—Organizational Chart
December 31, 2017



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**CITY OF BRAINERD, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2017**

Position	Term Expires	Name
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**ELECTED
OFFICIALS**

Mayor	12/31/18	Edwin L. Menk
Council Member, President, Ward 1	12/31/20	David Pritschet
Council Member, Vice President, At Large	12/31/18	Sue Hilgart
Council Member, At Large	12/31/20	Janice Lambert
Council Member, At Large	12/31/20	Kevin Stunek
Council Member, Ward 3	12/31/20	Dave Badeaux
Council Member, Ward 2	12/31/18	Kelly Bevans
Council Member, Ward 4	12/31/18	Gabe Johnson

**APPOINTED
OFFICIALS**

City Administrator	Cassandra Torstenson*
Finance Director/Deputy Clerk	Connie Hillman
Engineer	Paul Sandy
Planner	Mark Ostgarden
Fire Chief	Timothy Holmes
Police Chief	Corky McQuiston
HRA Executive Director	Jennifer Bergman
Airport Manager	Steven Wright
Public Utilities Superintendent	Scott Magnuson
Public Utilities Secretary	Todd Wicklund

* Effective 1/1/18

**CONTRACTUAL
OFFICIALS**

City Civil Attorney	Joseph J. Langel
Auditor	CliftonLarsonAllen LLP

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brainerd (the City), Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

Honorable Mayor and
Members of the City Council
City of Brainerd

Report on the Financial Statements (Continued)

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brainerd, Minnesota, as of December 31, 2017, the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Changes in Net Pension Asset and Related Ratios, Schedule of Funding Progress, Schedule of the City's Proportionate Share of the Net Pension Liability, Schedule of City Pension Contributions, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules, introductory section, statistical information and component unit financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

Honorable Mayor and
Members of the City Council
City of Brainerd

Other Matters (Continued)

Supplementary and Other Information (Continued)

The combining and individual nonmajor fund financial statements and schedules, component unit financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules, component unit financial statements and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
June 22, 2018

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**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

As management of the City of Brainerd (the City), Minnesota, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2017. 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 and deferred outflows of resources of the City of Brainerd exceeded its liabilities and deferred inflows of resources at the close of the most recent financial year by \$52,181,875 (net position). Restricted net position is \$6,894,413, which will be used for debt service, economic development, and pension and unrestricted net position is \$1,120,676.
- ◆ The City's total net position increased by \$3,519,160 from operations.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,621,041.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,475,845, or 150% of total General Fund expenditures; however, it should be noted that unassigned fund balance for the combined "primary operating funds" including General, Public Safety, Park and Recreation, and Street Funds was only 39% of 2017 expenditures.
- ◆ The City's total bonded debt decreased by \$2,453,932 during the current fiscal year as a result of payments on existing debt.
- ◆ The Sanitary Sewer Collection System Fund's net position increased \$709,884 from the prior year due to capital contributions from the Airport. The Storm Sewer Fund's net position increased \$21,264 from the prior year due to an increase in charges for services.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements for the year ended December 31, 2017. The information presented should be read in conjunction with the financial statements and the accompanying notes for the basic financial statements. The City's basic financial statements are comprised of 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 (government-wide) and modified accrual basis (fund level) of accounting in accordance with accounting principles 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's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, deferred inflows of resources and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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).

The government-wide financial statements report functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) including general government, public safety, public works, economic development, and culture and recreation.

The government-wide financial statements can be found on pages 22-25 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, 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 can be divided into two categories: governmental funds or proprietary 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 maintains eight 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, Park And Recreation Fund, Street Fund, Revolving Loans Fund, Economic Development Authority 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 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 26-31 of this report.

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Overview of the Financial Statements (Continued)

Proprietary Funds

The City reports three proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and storm sewer utilities. Proprietary fund financial statements provide the same type of information as the government-wide statements, only in more detail. The City also maintains an internal service fund which is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its health insurance and general risk management. These services have been included within governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 32-34 of this report.

Notes to Financial Statements

The notes provide 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 35-96 of this report.

Other information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 107-122 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$52,181,875 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (85%) 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 uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Government-Wide Financial Analysis (Continued)

City's net position:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 17,081,278	\$ 16,198,283	\$ 1,194,525	\$ 1,856,557	\$ 18,275,803	\$ 18,054,840
Capital Assets	37,645,958	37,272,191	17,585,999	17,259,509	55,231,957	54,531,700
Total Assets	54,727,236	53,470,474	18,780,524	19,116,066	73,507,760	72,586,540
Deferred Outflows of Resources	4,252,147	7,643,682	14,962	38,146	4,267,109	7,681,828
Long-Term Liabilities						
Outstanding	13,195,331	22,000,566	4,747,126	5,072,196	17,942,457	27,072,762
Other Liabilities	946,907	1,168,795	1,003,773	1,771,662	1,950,680	2,940,457
Total Liabilities	14,142,238	23,169,361	5,750,899	6,843,858	19,893,137	30,013,219
Deferred Inflows of Resources	5,685,555	1,581,216	14,302	11,218	5,699,857	1,592,434
Net Position						
Net Investment in Capital Assets	31,299,024	29,077,014	12,867,762	12,691,158	44,166,786	41,768,172
Restricted	6,894,413	7,136,968	-	-	6,894,413	7,136,968
Unrestricted	958,153	149,597	162,523	(392,022)	1,120,676	(242,425)
Total Net Position	<u>\$ 39,151,590</u>	<u>\$ 36,363,579</u>	<u>\$ 13,030,285</u>	<u>\$ 12,299,136</u>	<u>\$ 52,181,875</u>	<u>\$ 48,662,715</u>

A portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net position is \$1,120,676 and may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Government-Wide Financial Analysis (Continued)

City's changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue						
Program Revenues:						
Charges for Services	\$ 3,697,514	\$ 2,957,110	\$ 924,091	\$ 781,170	\$ 4,621,605	\$ 3,738,280
Operating Grants and Contributions	1,626,126	1,359,201	-	-	1,626,126	1,359,201
Capital Grants and Contributions	1,960,551	698,891	584,488	-	2,545,039	698,891
General Revenues:						
Property Taxes	5,297,185	5,157,448	-	-	5,297,185	5,157,448
Sales Taxes	1,004,910	977,969	-	-	1,004,910	977,969
Franchise Fees	6,557	63,935	-	-	6,557	63,935
Grants and Contributions not Restricted to Specific Programs	4,130,660	4,128,905	-	359	4,130,660	4,129,264
Unrestricted Investment Earnings	52,827	30,229	162	1,513	52,989	31,742
Other	120,144	145,251	255,263	1,745	375,407	146,996
Total Revenues	17,896,474	15,518,939	1,764,004	784,787	19,660,478	16,303,726
Expenses						
General Government	2,402,941	2,294,344	-	-	2,402,941	2,294,344
Public Safety	5,092,682	5,988,001	-	-	5,092,682	5,988,001
Public Works	4,013,059	4,817,410	-	-	4,013,059	4,817,410
Culture and Recreation	1,171,905	1,163,323	-	-	1,171,905	1,163,323
Economic Development	2,292,834	1,343,868	-	-	2,292,834	1,343,868
Debt Service	135,042	221,979	-	-	135,042	221,979
Sanitary Sewer	-	-	641,506	902,801	641,506	902,801
Storm Sewer	-	-	391,349	327,621	391,349	327,621
Total Expenses	15,108,463	15,828,925	1,032,855	1,230,422	16,141,318	17,059,347
Change in Net Position Before Transfers	2,788,011	(309,986)	731,149	(445,635)	3,519,160	(755,621)
Transfers	-	(61,000)	-	61,000	-	-
Increase (Decrease) in Net Position	2,788,011	(370,986)	731,149	(384,635)	3,519,160	(755,621)
Net Position, Beginning	36,363,579	37,234,565	12,299,136	12,183,771	48,662,715	49,418,336
Prior Period Adjustment	-	(500,000)	-	500,000	-	-
Net Position, Beginning, Restated	36,363,579	36,734,565	12,299,136	12,683,771	48,662,715	49,418,336
Net Position, Ending	\$ 39,151,590	\$ 36,363,579	\$ 13,030,285	\$ 12,299,136	\$ 52,181,875	\$ 48,662,715

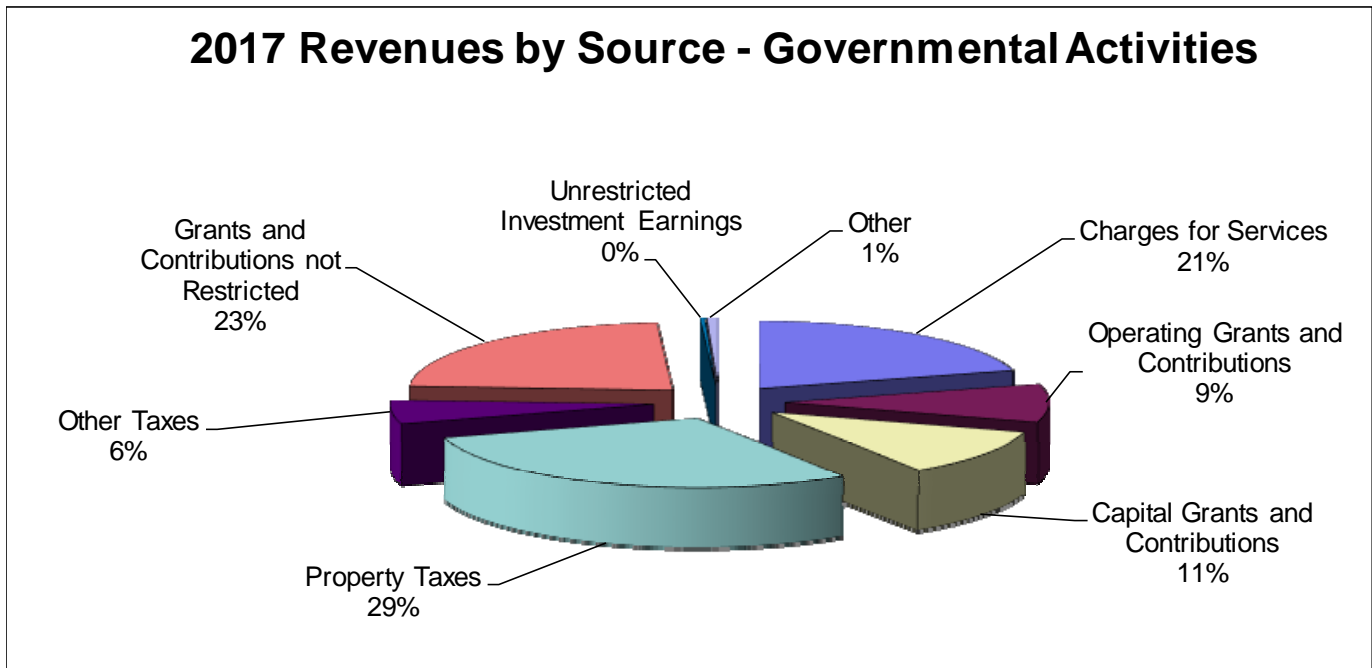
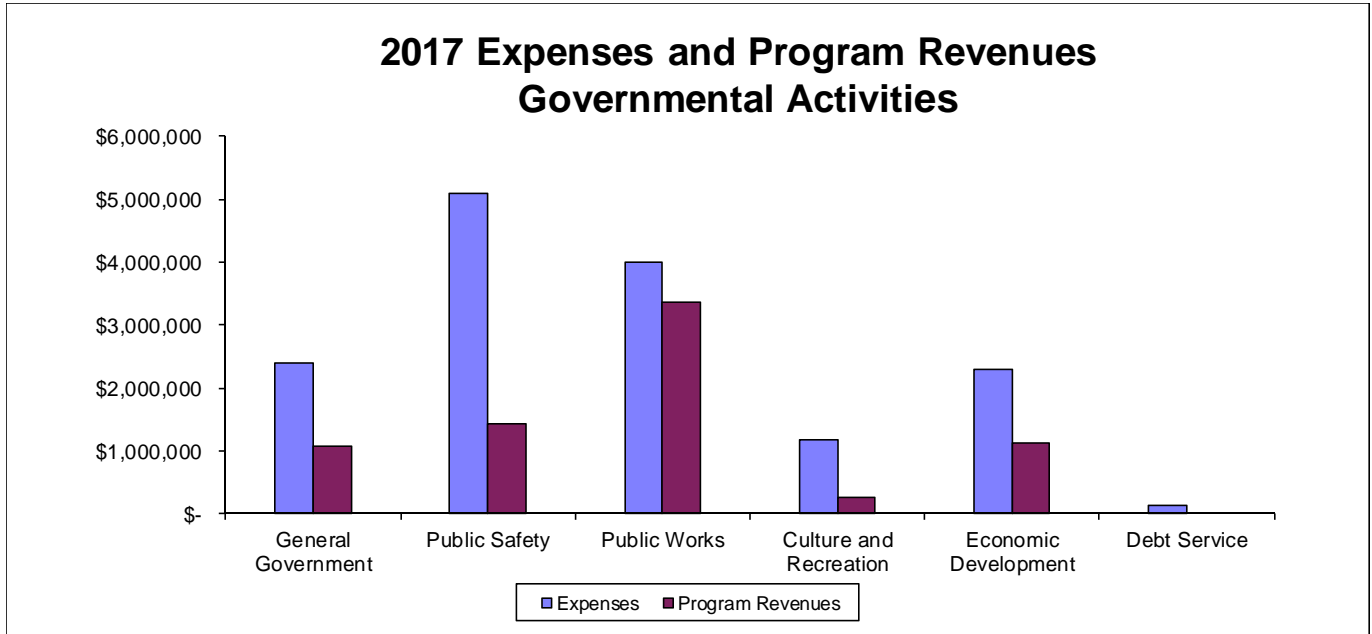
Governmental Activities

Governmental activities increased the City's net position by approximately \$2.8 million compared to a decrease of approximately \$371,000 in the prior year. Overall City expenses were down by \$700,000 and government-wide revenues were up by \$2.4 million. Expenses were down due to the change in the net pension liability and the related deferred outflows of resources and deferred inflows of resources in the prior year with the change in the current year being minimal. Revenues increased due to an increase in intergovernmental revenue.

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Government-Wide Financial Analysis (Continued)

Governmental Activities (Continued)

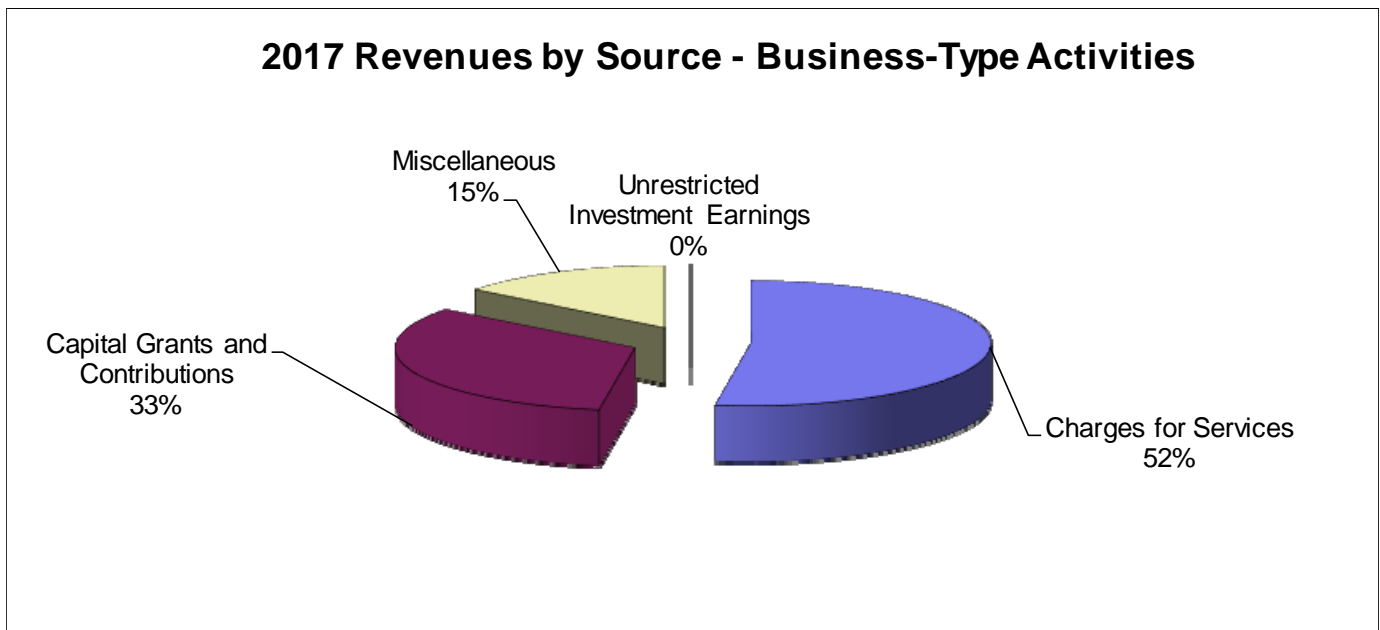
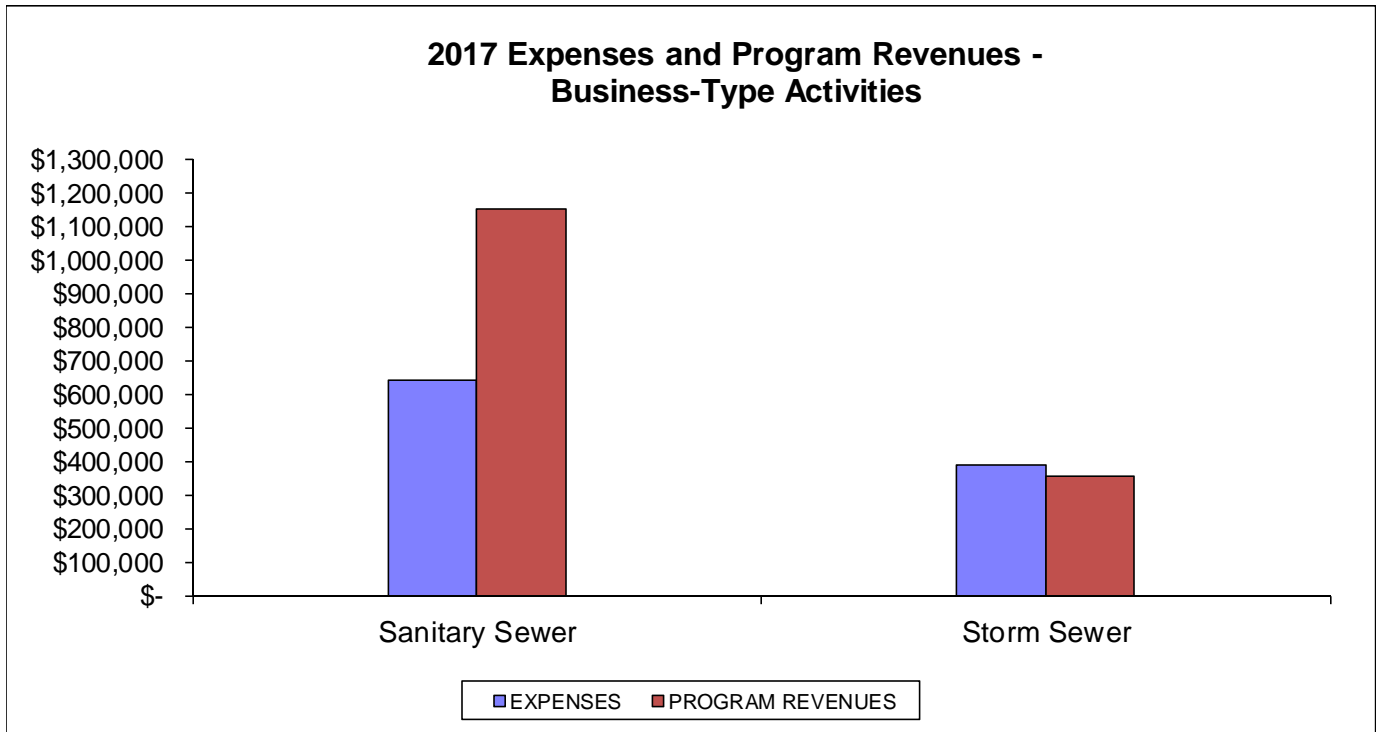


**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Government-Wide Financial Analysis (Continued)

Business-Type Activities

Business-Type Activities increased the City's net position by approximately \$730,000 compared to a decrease of approximately \$400,000 in the prior year. Overall City expenses were down by \$200,000 and revenues were up by \$1 million. Revenue increased in the current year due to the donation of infrastructure.



**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Financial Analysis of Governmental Funds

Governmental Funds

The focus of the City'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, unassigned 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 \$9,621,041. Approximately 36% of this total amount (\$3,475,845) constitutes of unassigned fund balance. Approximately 30% of the fund balance is restricted to indicate that it is not available for new spending because it must be used only for debt retirement or other restricted purposes (\$2,916,326).

General Fund slightly increased its fund balance by \$30,466. Revenues came in over budget due to an increase in licenses and permits while transfers out were significantly over budget.

The Public Safety Fund slightly decreased its fund balance by \$6,990. Revenues were over budget due to an increase in fines and forfeits, while expenditures were under budget mainly in the police department.

The Park and Recreation Fund slightly decreased its fund balance in 2017. The Park and Recreation Fund entered into a capital lease causing expenditures and other financing sources to be over budget.

The Street Fund slightly decreased its fund balance in 2017. The Street Fund was under budget for expenditures and over budget for revenues.

The Revolving Loans Fund decreased its fund balance by \$439,226 in 2017, primarily as a result of transferring money to a unified fund outside of City operations.

The Economic Development Authority Fund increased its fund balance by \$9,032 in 2017. Revenues and expenditures came in slightly under budget.

The Debt Service Fund increased its fund balance by \$184,259 in 2017. Tax and special assessment collections were more than the annual principal and interest payments.

The Capital Projects Fund increased its fund balance by \$206,469 in 2017. The increase is due to the transfers in from General Fund and Public Safety Fund due to revenues exceeding expenditures in those funds.

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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, 2017, amounts to \$55,231,957 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, machinery and equipment.

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 3,620,325	\$ 140,865	\$ 3,761,190
Construction-in-Progress	47,116	92,103	139,219
Land Improvements	1,747,476	-	1,747,476
Buildings	3,758,539	-	3,758,539
Improvements Other Than Buildings	1,173,243	2,706	1,175,949
Machinery and Equipment	1,051,155	17,395	1,068,550
Infrastructure	25,051,902	17,332,930	42,384,832
Motor Vehicles	1,058,217	-	1,058,217
Office Equipment	137,985	-	137,985
Total	<u>\$ 37,645,958</u>	<u>\$ 17,585,999</u>	<u>\$ 55,231,957</u>

Additional information on the City's capital assets can be found in Note 4.A.5 starting on page 58 of this report.

Long-Term Debt

At the end of the current fiscal year, the City had total indebtedness of \$10,716,156. Of this amount, \$188,724 is capital lease related, \$4,825,000 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment. The remainder (\$5,702,432) of the City's debt is secured by specified revenue sources (i.e., revenue bonds); however, \$4,241,400 represents revenue bonds backed by the full faith and credit of the City in the event that the revenue source was inadequate to fund debt payments.

The City's outstanding bonded indebtedness at December 31, 2017:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General Obligation Bonds	\$ 432,500	\$ -	\$ 432,500
General Obligation Revenue Bonds	-	4,241,400	4,241,400
General Obligation Capital Improvement Bonds	490,000	-	490,000
Equipment Certificates	538,532	-	538,532
Special Assessment Improvement Bonds	4,825,000	-	4,825,000
Capital Lease Payable	188,724	-	188,724
Subtotal	6,474,756	4,241,400	10,716,156
Plus: Issuance Premiums	101,629	382,357	483,986
Net Outstanding Indebtedness	<u>\$ 6,576,385</u>	<u>\$ 4,623,757</u>	<u>\$ 11,200,142</u>

**CITY OF BRAINERD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Capital Assets and Debt Administration (Continued)

Long-Term Debt (Continued)

The City's total long term liabilities decreased approximately \$2.4 million related to the retirement of debt.

The City of Brainerd is rated AA- from Standard & Poor's Rating Services on all of its general obligation debt.

State statutes limit the amount of general obligation debt a Minnesota city may issue to 3% of total Estimated Market Value. The current debt limitation for the City of Brainerd is \$20,224,488. Only \$1,028,532 of the City's outstanding debt is counted against the statutory limitation as the debt is wholly financed by general tax levy, leaving the City with additional legal borrowing capacity of \$19,195,956.

Additional information on the City's long-term debt can be found in Note 4.B.1 beginning on page 62 of this report.

Economic Factors and Next Year's Budgets and Rates

At the end of 2017, the City Council authorized an agreement with a consulting firm to perform a facilities assessment for the City of Brainerd. The consulting firm will have the assessment completed for the inclusion of projects in the 2019 budget. The assessment includes all buildings owned by the City, with the exception of those buildings operated by the Brainerd Public Utilities, and will identify any deficiencies, as well as recommendations for possible improved operating efficiencies for the City.

All labor union contracts were settled for 2018 at the end of 2016. The 2018 budget reflected the wages reflected in the contracts. In 2017, the City Council also authorized an agreement with a consulting firm to perform an internal and external compensation study. The results of the study will be included in the 2019 budget.

In February 2018, the City issued General Obligation Improvement, Utility Revenue and Equipment Certificates in the aggregate principal amount of \$5,295,000. Details of the issue are reflected in Note 13, page 96.

The City's total estimated taxable market value remained relatively flat for pay year 2018. Twelve new residential building permits have been issued through May, with a total estimated valuation of around a couple million dollars. The adopted 2018 levy resulted in a \$188,082 dollar increase over the 2017 levy.

The City Council continues to monitor the City's performance and to work toward obtaining the City's strategic financial goals.

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, Minnesota 56401.

BASIC FINANCIAL STATEMENTS

CITY OF BRAINERD, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 10,847,582	\$ -	\$ 10,847,582
Cash Held with Escrow Agent	-	-	-
Receivables			
Taxes - Delinquent	294,175	-	294,175
Accounts	154,460	-	154,460
Special Assessments	3,163,661	-	3,163,661
Accrued Interest	26,974	-	26,974
Loans	1,448,095	-	1,448,095
Tax Prepayments	233,314	-	233,314
Due from Other Governments	691,469	-	691,469
Due from Component Unit	144,880	157,018	301,898
Due from Primary Government	-	-	-
Internal Balances	(1,037,507)	1,037,507	-
Inventory	-	-	-
Prepayments	22,669	-	22,669
Net Pension Asset	603,254	-	603,254
Restricted Assets			
Cash and Investments	-	-	-
Bonds and Notes Receivable	-	-	-
Notes Receivable - Interest	-	-	-
Land Held for Resale	488,252	-	488,252
Service Territory Acquisitions, Net of Amortization	-	-	-
Other Assets	-	-	-
Capital Assets			
Land and Construction In Progress	3,667,441	232,968	3,900,409
Other Capital Assets, Net of Depreciation	33,978,517	17,353,031	51,331,548
Total Assets	<u>54,727,236</u>	<u>18,780,524</u>	<u>73,507,760</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	4,252,147	14,962	4,267,109
LIABILITIES			
Current Liabilities			
Accounts Payable	227,363	95,499	322,862
Contracts Payable	203,049	-	203,049
Accrued Liabilities	142,098	1,880	143,978
Deposits Payable	2,700	-	2,700
Accrued Interest Payable	67,044	39,802	106,846
Unearned Revenue	100,841	-	100,841
Prepaid Rent	-	-	-
FSS Escrow	-	-	-
Due to Other Governments	69,946	-	69,946
Due to Primary Government	-	-	-
Due to Component Unit	133,866	866,592	1,000,458
Long-Term Liabilities			
Due within One Year	2,128,883	310,605	2,439,488
Due in More than One Year	5,795,660	4,363,170	10,158,830
FSS Escrow	-	-	-
Other Postemployment Benefits	362,915	12,008	374,923
Net Pension Liability	4,907,873	61,343	4,969,216
Total Liabilities	<u>14,142,238</u>	<u>5,750,899</u>	<u>19,893,137</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	5,452,241	14,302	5,466,543
Property Taxes Levied for Subsequent Year	233,314	-	233,314
	<u>5,685,555</u>	<u>14,302</u>	<u>5,699,857</u>
NET POSITION			
Net Investment in Capital Assets	31,299,024	12,867,762	44,166,786
Restricted for Net Pension Asset	603,254	-	603,254
Restricted for Debt Service	3,837,524	-	3,837,524
Restricted for Economic Development	2,453,635	-	2,453,635
Restricted for HAP or FSS Escrow Liabilities	-	-	-
Restricted for Security Deposit Refunds	-	-	-
Restricted for Reserve Requirements	-	-	-
Unrestricted	958,153	162,523	1,120,676
Total Net Position	<u>\$ 39,151,590</u>	<u>\$ 13,030,285</u>	<u>\$ 52,181,875</u>

See accompanying Notes to Basic Financial Statements.

Component Units

Brainerd Public Library	Brainerd Lakes Regional Airport	Brainerd Public Utilities	Housing and Redevelopment Authority of Brainerd
\$ 224,628	\$ 1,275,646	\$ 6,992,343	\$ 1,131,880
-	-	-	548
8,090	-	-	-
-	50,157	4,062,438	139,887
-	-	-	-
-	-	23,605	-
-	-	-	-
6,416	-	-	-
-	942,243	-	-
-	-	1,429	-
-	-	1,000,458	-
-	-	-	-
-	-	1,149,430	-
-	-	160,387	61,426
-	-	-	-
-	-	4,614,503	245,959
-	-	5,659,334	-
-	-	66,700	-
-	-	-	-
-	-	241,621	-
-	-	-	2,415
9,041	2,406,371	93,886	463,375
347,574	27,704,363	64,360,538	3,925,365
595,749	32,378,780	88,426,672	5,970,855
-	33,675	968,684	-
2,233	298,330	1,699,258	116,461
-	-	-	-
-	9,131	434,027	47,949
-	-	312,904	64,280
-	-	311,200	101,736
-	-	-	24,068
-	-	-	1,724
-	-	-	27,485
-	-	-	25,625
-	50,681	251,217	-
1,429	-	-	-
-	56,354	2,680,213	183,083
-	138,571	34,419,747	821,000
-	-	-	19,696
-	3,135	-	74,093
-	138,067	3,460,092	-
3,662	694,269	43,568,658	1,507,200
-	32,186	626,433	-
6,416	-	-	-
6,416	32,186	626,433	-
356,615	30,038,657	29,174,203	3,938,740
-	-	-	-
-	-	8,112,081	-
-	-	-	-
-	-	-	6,860
-	-	-	5,080
-	-	-	94,095
229,056	1,647,343	7,913,981	418,880
\$ 585,671	\$ 31,686,000	\$ 45,200,265	\$ 4,463,655

**CITY OF BRAINERD, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

Functions/Programs	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:				
Primary Government				
Governmental Activities				
General Government	\$ 2,402,941	\$ 998,024	\$ 43,514	\$ 36,072
Public Safety	5,092,682	923,876	444,891	65,292
Public Works	4,013,059	706,796	816,881	1,841,094
Culture and Recreation	1,171,905	254,272	5,069	11,000
Economic Development	2,292,834	814,546	315,771	7,093
Interest on Long-Term Debt	135,042	-	-	-
Total Governmental Activities	15,108,463	3,697,514	1,626,126	1,960,551
Business-Type Activities				
Sanitary Sewer	641,506	567,740	-	584,488
Storm Sewer	391,349	356,351	-	-
Total Business-Type Activities	1,032,855	924,091	-	584,488
Total Primary Government	\$ 16,141,318	\$ 4,621,605	\$ 1,626,126	\$ 2,545,039
Component Units				
Brainerd Public Library	234,215	-	57,013	-
Brainerd Lakes Regional Airport	5,188,429	686,501	453,148	1,429,806
Brainerd Public Utilities	26,139,288	24,897,715	1,315,565	988,568
Housing and Redevelopment Authority of Brainerd	3,675,278	1,234,882	1,690,850	461,744
Total Component Units	\$ 35,237,210	\$ 26,819,098	\$ 3,516,576	\$ 2,880,118
General Revenues				
Taxes				
Property Taxes and Franchise Fees, Levied for General Purpose				
Sales Taxes				
Franchise Fees				
Grants and Contributions not Restricted to Specific Programs				
Unrestricted Investment Earnings (Interest)				
Gain on Sale of Capital Assets				
Miscellaneous				
Total General Revenues				
Change in Net Position				
Net Position - Beginning of Year				
Net Position - End of Year				

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Brainerd Public Library	Brainerd Lakes Regional Airport	Brainerd Public Utilities	Housing and Redevelopment Authority of Brainerd
\$ (1,325,331)	\$ -	\$ (1,325,331)	\$ -	\$ -	\$ -	\$ -
(3,658,623)	-	(3,658,623)	-	-	-	-
(648,288)	-	(648,288)	-	-	-	-
(901,564)	-	(901,564)	-	-	-	-
(1,155,424)	-	(1,155,424)	-	-	-	-
(135,042)	-	(135,042)	-	-	-	-
<u>(7,824,272)</u>	<u>-</u>	<u>(7,824,272)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	510,722	510,722	-	-	-	-
-	(34,998)	(34,998)	-	-	-	-
-	475,724	475,724	-	-	-	-
<u>(7,824,272)</u>	<u>475,724</u>	<u>(7,348,548)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	(177,202)	-	-	-
-	-	-	-	(2,618,974)	-	-
-	-	-	-	-	1,062,560	-
-	-	-	-	-	-	(287,802)
-	-	-	<u>(177,202)</u>	<u>(2,618,974)</u>	<u>1,062,560</u>	<u>(287,802)</u>
5,297,185	-	5,297,185	142,962	-	-	162,845
1,004,910	-	1,004,910	-	-	-	-
6,557	-	6,557	-	-	-	-
4,130,660	-	4,130,660	-	-	122,452	5
52,827	162	52,989	1,291	9,786	345,791	(340)
-	-	-	-	15,800	131,033	-
120,144	255,263	375,407	4,844	-	68,866	277,931
<u>10,612,283</u>	<u>255,425</u>	<u>10,867,708</u>	<u>149,097</u>	<u>25,586</u>	<u>668,142</u>	<u>440,441</u>
2,788,011	731,149	3,519,160	(28,105)	(2,593,388)	1,730,702	152,639
36,363,579	12,299,136	48,662,715	613,776	34,279,388	43,469,563	4,311,016
<u>\$ 39,151,590</u>	<u>\$ 13,030,285</u>	<u>\$ 52,181,875</u>	<u>\$ 585,671</u>	<u>\$ 31,686,000</u>	<u>\$ 45,200,265</u>	<u>\$ 4,463,655</u>

**CITY OF BRAINERD, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	GENERAL FUND	PUBLIC SAFETY FUND	PARK AND RECREATION FUND	STREET FUND
ASSETS				
Cash and Investments	\$ 3,397,748	\$ 127,953	\$ 14,078	\$ 31,580
Receivables				
Taxes - Delinquent	111,728	2,587	1,969	2,250
Accounts	132,207	2,007	-	-
Special Assessments	86,295	-	-	6,317
Accrued Interest	26,974	-	-	-
Loans and Notes	-	-	-	-
Tax Prepayments	88,614	2,052	1,561	1,784
Due from Other Funds	290,790	6,701	3,437	22,298
Due from Other Governments	73	38,184	-	347
Due from Component Unit	37,789	-	-	-
Prepayments	1,604	1,175	-	-
Land Held for Resale	-	-	-	-
Total Assets	<u>\$ 4,173,822</u>	<u>\$ 180,659</u>	<u>\$ 21,045</u>	<u>\$ 64,576</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 27,470	\$ 12,415	\$ 2,604	\$ 25,028
Contracts Payable	-	-	-	-
Accrued Liabilities	26,706	91,291	11,252	8,418
Deposit Payable	2,700	-	-	-
Unearned Revenue	-	-	-	-
Due to Other Funds	329,000	42,800	-	-
Due to Other Governments	-	7,787	201	-
Due to Component Unit	2,941	6,701	3,437	22,298
Total Liabilities	388,817	160,994	17,494	55,744
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	75,569	1,747	1,330	1,520
Property Taxes Levied for Subsequent Year	88,614	2,052	1,561	1,784
Unavailable Revenue - Special Assessments	85,123	-	-	4,962
Unavailable Revenue - Notes	8,250	-	-	-
Unavailable Revenue - Grants	-	14,288	-	-
Unavailable Revenue - Land Held For Resale	-	-	-	-
Total Deferred Inflows of Resources	257,556	18,087	2,891	8,266
Fund Balances				
Nonspendable	1,604	1,175	-	-
Restricted	-	-	-	-
Committed	-	403	660	566
Assigned	50,000	-	-	-
Unassigned	3,475,845	-	-	-
Total Fund Balances	<u>3,527,449</u>	<u>1,578</u>	<u>660</u>	<u>566</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 4,173,822</u>	<u>\$ 180,659</u>	<u>\$ 21,045</u>	<u>\$ 64,576</u>

REVOLVING LOANS FUND	ECONOMIC DEVELOPMENT AUTHORITY	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 338,433	\$ 25,106	\$ 2,110,013	\$ 3,500,990	\$ 1,127,258	\$ 10,673,159
-	6,692	116,767	24,126	28,056	294,175
981	-	-	-	19,265	154,460
-	-	1,677,788	1,393,261	-	3,163,661
-	-	-	-	-	26,974
1,448,095	-	-	-	-	1,448,095
-	5,308	92,609	19,135	22,251	233,314
-	-	-	463,903	-	787,129
332,027	-	-	17,822	303,016	691,469
-	-	-	-	105,575	143,364
-	-	-	-	-	2,779
-	488,252	-	-	-	488,252
<u>\$ 2,119,536</u>	<u>\$ 525,358</u>	<u>\$ 3,997,177</u>	<u>\$ 5,419,237</u>	<u>\$ 1,605,421</u>	<u>\$ 18,106,831</u>
\$ -	\$ 19	\$ -	\$ 15,215	\$ 143,657	\$ 226,408
163,450	-	-	39,599	-	203,049
-	286	-	2,724	1,421	142,098
-	-	-	-	-	2,700
100,841	-	-	-	-	100,841
-	-	-	1,397,732	55,104	1,824,636
-	-	-	16,499	45,459	69,946
-	-	-	-	98,489	133,866
264,291	305	-	1,471,769	344,130	2,703,544
-	4,527	79,505	16,671	18,972	199,841
-	5,308	92,609	19,135	22,251	233,314
-	-	1,671,594	1,386,994	-	3,148,673
1,448,094	-	-	-	-	1,456,344
16,256	-	-	17,822	207,456	255,822
-	488,252	-	-	-	488,252
1,464,350	498,087	1,843,708	1,440,622	248,679	5,782,246
-	-	-	-	-	2,779
390,895	-	2,153,469	-	371,962	2,916,326
-	26,966	-	-	640,650	669,245
-	-	-	2,506,846	-	2,556,846
-	-	-	-	-	3,475,845
<u>390,895</u>	<u>26,966</u>	<u>2,153,469</u>	<u>2,506,846</u>	<u>1,012,612</u>	<u>9,621,041</u>
<u>\$ 2,119,536</u>	<u>\$ 525,358</u>	<u>\$ 3,997,177</u>	<u>\$ 5,419,237</u>	<u>\$ 1,605,421</u>	<u>\$ 18,106,831</u>

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**CITY OF BRAINERD, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

Total Fund Balances for Governmental Funds \$ 9,621,041

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

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

Capital Assets	\$ 65,741,353	
Accumulated Depreciation	<u>(28,095,395)</u>	37,645,958

Some of the City's property taxes, special assessments, notes, sales of land held for resale and revenues 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 inflows of resources in the governmental funds. 5,548,932

Net Pension Asset, Liability and related deferred inflows and outflows of resources are recorded only on the statement of net position. Balances at year-end are:

Net Pension Asset	603,254	
Net Pension Liability	(4,907,873)	
Deferred Outflows of Resources - Pension Related	4,252,147	
Deferred Inflows of Resources - Pension Related	<u>(5,452,241)</u>	(5,504,713)

Net position held in Internal Service funds are included in the statement of net position. 194,874

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 position. (67,044)

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 position.

Bonds Payable	(6,286,032)	
Unamortized Discounts and Premiums	(101,629)	
Obligations Under Capital Leases	(188,724)	
Compensated Absences Payable	(1,348,158)	
Other Postemployment Benefits Payable	<u>(362,915)</u>	<u>(8,287,458)</u>

Total Net Position of Governmental Activities \$ 39,151,590

See accompanying Notes to Basic Financial Statements.

CITY OF BRAINERD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

	GENERAL FUND	PUBLIC SAFETY FUND	PARK AND RECREATION FUND	STREET FUND
REVENUES				
Taxes	\$ 1,632,642	\$ 660,072	\$ 35,010	\$ 40,009
Sales Tax	-	-	-	-
Tax Increments	-	-	-	-
Licenses and Permits	391,487	-	-	-
Intergovernmental	159,409	3,187,426	713,786	576,400
Charges for Services	33,795	659,020	191,735	-
Fines and Forfeits	-	175,813	-	-
Special Assessments	36,072	-	-	10,899
Interest	10,759	-	-	-
Contributions and Donations	-	7,941	5,069	-
Miscellaneous	469,209	92,967	71,269	270,144
Total Revenues	<u>2,733,373</u>	<u>4,783,239</u>	<u>1,016,869</u>	<u>897,452</u>
EXPENDITURES				
Current				
General Government	2,306,480	-	-	-
Public Safety	-	4,520,515	-	-
Public Works	-	-	-	899,515
Culture and Recreation	-	-	1,022,261	-
Economic Development	-	-	-	-
Capital Outlay	-	38,870	52,812	-
Debt Service				
Principal Retirement	13,318	17,650	10,024	7,507
Interest and Fiscal Charges	4,198	5,351	4,784	1,276
Total Expenditures	<u>2,323,996</u>	<u>4,582,386</u>	<u>1,089,881</u>	<u>908,298</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	409,377	200,853	(73,012)	(10,846)
OTHER FINANCING SOURCES (USES)				
Issuance of Capital Leases	-	38,870	52,812	-
Sale of Capital Assets	-	-	-	-
Transfers In	1,454	-	21,965	10,844
Transfers Out	(380,365)	(246,713)	(1,800)	-
Total Other Financing Sources (Uses)	<u>(378,911)</u>	<u>(207,843)</u>	<u>72,977</u>	<u>10,844</u>
NET CHANGE IN FUND BALANCES	30,466	(6,990)	(35)	(2)
Fund Balances - Beginning of Year	<u>3,496,983</u>	<u>8,568</u>	<u>695</u>	<u>568</u>
FUND BALANCES - END OF YEAR	<u>\$ 3,527,449</u>	<u>\$ 1,578</u>	<u>\$ 660</u>	<u>\$ 566</u>

See accompanying Notes to Basic Financial Statements.

REVOLVING LOANS FUND	ECONOMIC DEVELOPMENT AUTHORITY	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ 118,913	\$ 2,070,661	\$ 433,124	\$ 498,323	\$ 5,488,754
-	-	-	-	1,004,910	1,004,910
-	-	-	-	216,989	216,989
-	-	-	-	-	391,487
315,771	-	-	1,223,417	961,073	7,137,282
-	-	-	-	386,453	1,271,003
-	-	-	-	12,608	188,421
-	-	397,642	152,189	-	596,802
3,911	188	7,633	23,491	5,927	51,909
-	-	-	8,740	13,800	35,550
361,969	-	-	20,158	(6,840)	1,278,876
<u>681,651</u>	<u>119,101</u>	<u>2,475,936</u>	<u>1,861,119</u>	<u>3,107,043</u>	<u>17,675,783</u>
-	-	-	-	12,459	2,318,939
-	-	-	-	14,170	4,534,685
-	-	-	-	1,250,830	2,150,345
-	-	-	-	-	1,022,261
1,120,877	110,069	-	-	1,220,146	2,451,092
-	-	-	2,583,987	163,464	2,839,133
-	-	2,144,633	-	-	2,193,132
-	-	198,302	-	-	213,911
<u>1,120,877</u>	<u>110,069</u>	<u>2,342,935</u>	<u>2,583,987</u>	<u>2,661,069</u>	<u>17,723,498</u>
(439,226)	9,032	133,001	(722,868)	445,974	(47,715)
-	-	-	-	-	91,682
-	-	-	40,674	5,704	46,378
-	-	57,120	888,863	-	980,246
-	-	(5,862)	(200)	(345,306)	(980,246)
-	-	51,258	929,337	(339,602)	138,060
(439,226)	9,032	184,259	206,469	106,372	90,345
<u>830,121</u>	<u>17,934</u>	<u>1,969,210</u>	<u>2,300,377</u>	<u>906,240</u>	<u>9,530,696</u>
<u>\$ 390,895</u>	<u>\$ 26,966</u>	<u>\$ 2,153,469</u>	<u>\$ 2,506,846</u>	<u>\$ 1,012,612</u>	<u>\$ 9,621,041</u>

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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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 90,345

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

Capital Outlay	\$ 2,496,556	
Loss on Disposal of Capital Assets	(52,979)	
Depreciation Expense	<u>(2,069,810)</u>	373,767

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 position, 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 position, however, the repayment of principal reduces the liability.

Issuance of Capital Leases		(91,682)
Principal Payments of Capital Leases		48,499

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are 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:

Repayment of Debt Principal	2,144,633	
Change in Accrued Interest	22,944	
Amortization of Bond Discount/Premium	<u>29,842</u>	2,197,419

In the statement of activities, compensated absences and other postemployment benefits 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).

Change in Compensated Absences	(31,491)	
Change in Other Postemployment Benefits	<u>(16,202)</u>	(47,693)

Delinquent property taxes, special assessments, notes receivable, accounts 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 inflows of resources in the governmental funds.

385,272

Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measure by the change in Net Pension Liability and the related deferred inflows and outflows of resources.

(177,263)

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.

9,347

Change in Net Position of Governmental Activities **\$ 2,788,011**

See accompanying Notes to Basic Financial Statements.

**CITY OF BRAINERD, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SANITARY SEWER COLLECTION SYSTEM	STORM SEWER FUND	TOTALS	
ASSETS				
CURRENT ASSETS				
Cash and Investments	\$ -	\$ -	\$ -	\$ 174,423
Due from Other Funds	1,397,732	-	1,397,732	-
Due from Component Unit	97,460	59,557	157,017	1,516
Prepayments	-	-	-	19,890
Total Current Assets	<u>1,495,192</u>	<u>59,557</u>	<u>1,554,749</u>	<u>195,829</u>
NONCURRENT ASSETS				
Capital Assets				
Land (Non-Depreciable)	61,742	79,123	140,865	-
Construction in Progress (Non-Depreciable)	92,103	-	92,103	-
Improvements other than Buildings	24,966	-	24,966	-
Machinery and Equipment	322,342	-	322,342	-
Infrastructure	16,229,371	10,856,163	27,085,534	-
Motor Vehicles	63,050	-	63,050	-
Accumulated Depreciation	(5,479,663)	(4,663,198)	(10,142,861)	-
Net Capital Assets	<u>11,313,911</u>	<u>6,272,088</u>	<u>17,585,999</u>	<u>-</u>
Total Assets	12,809,103	6,331,645	19,140,748	195,829
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	11,115	3,847	14,962	-
LIABILITIES				
CURRENT LIABILITIES				
Accounts and Contracts Payable	95,499	-	95,499	955
Due to Other Funds	326,751	33,474	360,225	-
Due to Component Unit	866,592	-	866,592	-
Accrued Liabilities	1,331	549	1,880	-
Accrued Interest Payable	33,927	5,875	39,802	-
Bonds Payable - Due Within One Year	226,200	75,000	301,200	-
Compensated Absences Payable - Due Within One Year	6,339	3,066	9,405	-
Total Current Liabilities	<u>1,556,639</u>	<u>117,964</u>	<u>1,674,603</u>	<u>955</u>
NONCURRENT LIABILITIES				
Bonds Payable - Due in More than One Year	3,905,383	417,174	4,322,557	-
Other Postemployment Benefits Payable - Due in More Than One Year	8,751	3,257	12,008	-
Compensated Absences Payable - Due in More Than One Year	27,374	13,239	40,613	-
Net Pension Liability	45,572	15,771	61,343	-
Total Noncurrent Liabilities	<u>3,987,080</u>	<u>449,441</u>	<u>4,436,521</u>	<u>-</u>
Total Liabilities	5,543,719	567,405	6,111,124	955
DEFERRED INFLOWS OF RESOURCES				
Pension Related	10,625	3,677	14,302	-
NET POSITION				
Net Investment in Capital Assets	7,080,591	5,787,171	12,867,762	-
Unrestricted	185,283	(22,761)	162,522	194,874
Total Net Position	<u>\$ 7,265,874</u>	<u>\$ 5,764,410</u>	<u>\$ 13,030,284</u>	<u>\$ 194,874</u>

See accompanying Notes to Basic Financial Statements.

CITY OF BRAINERD, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

	ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SANITARY SEWER COLLECTION SYSTEM	STORM SEWER FUND	TOTALS	
OPERATING REVENUES				
Charges for Services	\$ 567,740	\$ 356,351	\$ 924,091	\$ 974,580
OPERATING EXPENSES				
Salaries and Benefits	170,021	59,657	229,678	-
Insurance	5,743	2,870	8,613	-
Depreciation	387,321	244,316	631,637	-
Materials and Supplies	54,860	72,681	127,541	-
Other Services and Supplies	-	-	-	966,151
Miscellaneous	1,951	2,004	3,955	-
Total Operating Expenses	<u>619,896</u>	<u>381,528</u>	<u>1,001,424</u>	<u>966,151</u>
OPERATING INCOME (LOSS)	(52,156)	(25,177)	(77,333)	8,429
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	199,000	56,262	255,262	-
Interest Income	162	-	162	918
Interest Expense and Fiscal Charges	(21,610)	(9,821)	(31,431)	-
Total Nonoperating Revenues (Expenses)	<u>177,552</u>	<u>46,441</u>	<u>223,993</u>	<u>918</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	125,396	21,264	146,660	9,347
Capital Contributions from Component Unit	<u>584,488</u>	<u>-</u>	<u>584,488</u>	<u>-</u>
CHANGE IN NET POSITION	709,884	21,264	731,148	9,347
Net Position - Beginning of Year	<u>6,555,990</u>	<u>5,743,146</u>	<u>12,299,136</u>	<u>185,527</u>
NET POSITION - END OF YEAR	<u>\$ 7,265,874</u>	<u>\$ 5,764,410</u>	<u>\$ 13,030,284</u>	<u>\$ 194,874</u>

See accompanying Notes to Basic Financial Statements.

CITY OF BRAINERD, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

	ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SANITARY SEWER COLLECTION SYSTEM	STORM SEWER FUND	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 567,740	\$ 356,351	\$ 924,091	\$ 974,580
Receipts from Other Sources	-	-	-	-
Payments to Suppliers	(239,437)	(78,553)	(317,990)	(966,801)
Payments to Employees	(175,607)	(60,106)	(235,713)	-
Net Cash Provided (Used) by Operating Activities	<u>152,696</u>	<u>217,692</u>	<u>370,388</u>	<u>7,779</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intergovernmental	199,000	56,262	255,262	
Interfund Borrowing	(525,117)	(101,650)	(626,767)	609
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(326,117)</u>	<u>(45,388)</u>	<u>(371,505)</u>	<u>609</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(281,982)	(91,657)	(373,639)	-
Interfund Borrowing	318,239	-	318,239	-
Principal Paid on Bonds	(190,800)	(70,000)	(260,800)	-
Interest and Fiscal Charges Paid on Bonds	(78,024)	(15,150)	(93,174)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(232,567)</u>	<u>(176,807)</u>	<u>(409,374)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Income	162	-	162	918
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(405,826)</u>	<u>(4,503)</u>	<u>(410,329)</u>	<u>9,306</u>
Cash and Cash Equivalents - Beginning of Year	405,826	4,503	410,329	165,117
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,423</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (52,156)	\$ (25,177)	\$ (77,333)	\$ 8,429
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities				
Depreciation Expense	387,321	244,316	631,637	-
(Increase) Decrease in Assets and Deferred Outflows of Resources				
Prepaid Items	24	10	34	(475)
Deferred Outflows of Resources	18,228	4,956	23,184	-
Increase (Decrease) in Liabilities and Deferred Inflows of Resources				
Accounts Payable	(176,907)	(1,008)	(177,915)	(175)
Accrued Liabilities	(18)	(99)	(117)	-
Compensated Absences	(822)	(1,020)	(1,842)	-
Other Postemployment Benefits	423	143	566	-
Net Pension Liability	(25,392)	(5,518)	(30,910)	-
Deferred Inflows of Resources	1,995	1,089	3,084	-
Total Adjustments	<u>204,852</u>	<u>242,869</u>	<u>447,721</u>	<u>(650)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 152,696</u>	<u>\$ 217,692</u>	<u>\$ 370,388</u>	<u>\$ 7,779</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Capital Contributions	584,488	-	-	

See accompanying Notes to Basic Financial Statements.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the City of Brainerd (the City), 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) was organized to promote development, improve housing and reduce blighted areas in the City. It has been blended in these financial statements 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. The City Council has the final approval for the EDA's actions. Additionally, the City provides a material portion of the EDA's annual operating budget and the EDA provides services entirely to the City. City staff handles the EDA activity including the funds and the City approves the tax levies and bonding activity. The EDA is reported as a major special revenue fund. No separate financial statements for the EDA are issued.

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, 2017**

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. 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 8 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 has 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, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Other Organizations

The Brainerd Fire Department Relief Association (the 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. 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 Position 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 proprietary funds are reported as separate columns in the fund financial statements.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 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, a special revenue fund, accounts for property tax levy, fines and forfeitures, and charges for services that are committed for the operations and maintenance of the fire, police, and other public safety functions of the City.

Park and Recreation Fund – The Park and Recreation Fund, a special revenue fund, accounts for local government aid and charges for services which are committed for the acquisition and maintenance of public parks and public recreation activities.

Street Fund – The Street Fund, a special revenue fund, accounts for local government aid and reimbursement for utility expenses that are committed to be used for all expenses of cleaning and repairing of streets and alleys.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Revolving Loans Fund – The Revolving Loans Fund, a special revenue fund, accounts for grant proceeds and has current loan repayment proceeds, which are restricted in that they are to be used in funding various revolving loans maintained by the City, including residential and commercial loans.

Economic Development Authority Fund – The Economic Development Authority Fund, a special revenue fund, was established by the bylaws of the Economic Development Authority and accounts for property tax levy revenues which are committed for the activities of the Economic Development Authority.

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.

The City reports the following proprietary funds:

Sanitary Sewer Collection System – The Sanitary Sewer Collection System Fund provides for the operation and maintenance of the wastewater collections. The fund charges user fees to those served by the system.

Storm Sewer Fund – The Storm Sewer Fund provides for the maintenance to the City's storm sewer system. The fund charges user fees to those served by the system.

Internal Service Fund – The City reports an internal service fund to account for the health insurance provided to other departments of the City on a cost reimbursement basis and general risk management.

The City's financial statements are prepared in accordance with GAAP. The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through to pronouncements (statements and interpretations).

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 and charges to the City's governmental funds related to employee insurance benefits. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and the cost of services and supplies. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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. When committed or assigned resources are available for use, it is the City's policy that the resources are considered to be spent in this order; committed, assigned and then unassigned.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position 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. Investment earnings are allocated to all funds on the basis of average cash balance.

For the purpose of reporting cash flows in the proprietary funds, the City considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents.

Cash and cash equivalents consist of checking accounts, 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 reported as a deferred inflow of resources 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, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position 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% of the estimated collections of taxes 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% of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

3. Tax Prepayments

During the current year, the County collected taxes levied for the subsequent period. These taxes will be recognized as revenue in the year for which they were levied and are shown as property taxes levied for subsequent year.

4. Accounts Receivable

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

5. 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 30 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 unavailable revenue at the time of the levy. Unavailable 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 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, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

6. 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.

7. 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.

8. Inventories and Prepays

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

9. Restricted Assets

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

10. Land Held for Resale

Land held for resale represents land acquired by the Primary Government for subsequent resale for redevelopment purposes. Land held for resale is reported at the lower of cost or estimated realizable value. Realizable value estimates have been based on estimated realizable sales proceeds net of expected selling expenses.

11. Capital and Intangible Assets

Capital and intangible assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), easements and computer software are reported in the governmental activities column in the government-wide financial statements. Capital and intangible 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 acquisition value at the date of donation.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

11. Capital and Intangible Assets (Continued)

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). 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. The total amount of interest capitalized during the year ended December 31, 2017 was \$86,984.

Capital and intangible assets of the Primary Government are depreciated or amortized using the straight-line method over the following estimated useful lives:

Assets	Years
Land Improvements	20
Buildings and Improvements	5-20
Machinery and Equipment	3-20
Furniture and Fixtures	5-15
Vehicles	3-20
Infrastructure	20-40
Permanent Easements	N/A
Temporary Easements	Length of Term or 5 years
Software	5

12. Deferred Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

13. 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, Park and Recreation, and Street Funds.

14. Long-Term Obligations

In the government-wide financial statements and proprietary funds 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 Position. Bond premiums and discounts, are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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.

15. Fund Balance

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance represents amounts not in spendable form or legally or contractually required to be maintained intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by a City Council resolution at a meeting prior to the close of the period. Committed fund balance may be uncommitted by a City Council resolution only. Assigned fund balance reflects funds intended to be used by the government for specific purposes assigned by more informal operational plans. The City Council policy authorizes the City Administrator or the Finance Director to assign fund balance as necessary. Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund. It is the City's policy that at the end of each fiscal year, the City will maintain unassigned portion of the fund balance for cash flow in a range equal to 35 – 50% of the working funds' current year operating expenditures.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

16. Deferred Inflows of Resources

The City's governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs.

17. Pension

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

18. Use of Estimates

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

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.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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 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.
5. The City has legally adopted budgets for the General Fund and these special revenue funds: Transit Fund, Public Safety Fund, Recycling Fund, Park and Recreation Fund, Street Fund, City Parking Lots Fund, Permanent Improvement Fund, Mayor's Contingency Fund, Hydrant Rental Fund, and Economic Development Authority 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 GAAP.
7. The City does not utilize encumbrances. Budget appropriations for all funds lapse at year end.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 COMPONENTS OF FUND BALANCE

At December 31, 2017, portions of the City's fund balance are not available for appropriation due to legal restrictions (Restricted), City Council action (Committed), policy and/or intent (Assigned), any residual balance in the General Fund or negative balance in any other fund is classified as (Unassigned). The following is a summary of the components of fund balance:

	General Fund	Public Safety Fund	Park and Recreation Fund	Street and Sewer Fund	Revolving Loans Fund	Economic Development Authority	Debt Service Fund	Capital Projects Fund	Other Governmental Funds
Fund Balances:									
Nonspendable:	\$ 1,604	\$ 1,175	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:									
Debt Service	-	-	-	-	-	-	2,153,469	-	-
Revolving Loans	-	-	-	-	390,895	-	-	-	-
School Patrol Operations	-	-	-	-	-	-	-	-	17,905
Recycling Operations	-	-	-	-	-	-	-	-	3,236
Transit Operations	-	-	-	-	-	-	-	-	120,668
Economic Development	-	-	-	-	-	-	-	-	157,807
Police Forfeiture Purchases	-	-	-	-	-	-	-	-	43,057
Employee Wellness	-	-	-	-	-	-	-	-	29,289
Committed to:									
Economic Development	-	-	660	-	-	26,966	-	-	-
City Parking Lot Improvements	-	-	-	-	-	-	-	-	13,953
Public Safety	-	403	-	-	-	-	-	-	-
Street Maintenance	-	-	-	(710)	-	-	-	-	-
Water and Sewer Availability Operations	-	-	-	-	-	-	-	-	617,613
Capital Projects	-	-	-	-	-	-	-	-	6,056
Other Purposes	-	-	-	-	-	-	-	-	3,028
Assigned:									
Severance	50,000	-	-	-	-	-	-	-	-
Other Capital Projects	-	-	-	-	-	-	-	2,506,846	-
Unassigned:	3,475,845	-	-	-	-	-	-	-	-
Total Fund Balances	\$ 3,527,449	\$ 1,578	\$ 660	\$ (710)	\$ 390,895	\$ 26,966	\$ 2,153,469	\$ 2,506,846	\$ 1,012,612

NOTE 4 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits - Primary Government and Library/Airport Component Units (Pooled with Primary Government)

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 follows Minnesota Statutes for deposits.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits - Primary Government and Library/Airport Component Units (Pooled with Primary Government)(Continued)

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, 2017 were fully covered by federal depository insurance, irrevocable standby letters of credit, or pledged collateral in accordance with Minnesota Statutes.

2. Investments – Primary Government and Library/Airport Component Units (Pooled with Primary Government)

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.
- ◆ 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

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments – Primary Government and Library/Airport Component Units (Pooled with Primary Government) (Continued)

- ◆ 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.

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.

	Credit Quality Rating	Amount
City		
Money Market	Not Rated	\$ 3,383,578
Negotiable CDs	Not Rated	4,808,817
MN Municipal Money Market Fund Plus Trust	Not Rated	46
Total Investments		\$ 8,192,441
Airport		
Money Market	Not Rated	\$ 397,864
Negotiable CDs	Not Rated	565,453
MN Municipal Money Market Fund Plus Trust	Not Rated	14
Total Investments		\$ 963,331
Library		
Money Market	Not Rated	\$ 70,098
Negotiable CDs	Not Rated	99,625
Total Investments		\$ 169,723

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments – Primary Government and Library/Airport Component Units (Pooled with Primary Government) (Continued)

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.

Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
City					
Money Market	\$ 3,383,578	\$ 3,383,578	\$ -	\$ -	\$ -
Negotiable CDs	4,808,817	1,171,936	1,248,720	2,183,488	204,673
MN Municipal Money Market Fund Plus Trust	46	46	-	-	-
Total	<u>\$ 8,192,441</u>	<u>\$ 4,555,560</u>	<u>\$ 1,248,720</u>	<u>\$ 2,183,488</u>	<u>\$ 204,673</u>
Airport					
Negotiable CDs	\$ 565,453	\$ 137,804	\$ 146,833	\$ 256,749	\$ 24,067
Money Market	397,864	397,864	-	-	-
MN Municipal Money Market Fund Plus Trust	14	14	-	-	-
Total	<u>\$ 963,331</u>	<u>\$ 535,682</u>	<u>\$ 146,833</u>	<u>\$ 256,749</u>	<u>\$ 24,067</u>
Library					
Negotiable CDs	\$ 99,625	\$ 24,279	\$ 25,870	\$ 45,236	\$ 4,240
Money Market	70,098	70,098	-	-	-
Total	<u>\$ 169,723</u>	<u>\$ 94,377</u>	<u>\$ 25,870</u>	<u>\$ 45,236</u>	<u>\$ 4,240</u>

The deposits and investments are presented in these financial statements:

Primary Government

Deposits	\$ 2,655,141
Investments	8,192,441
Total Cash and Investments	<u>\$ 10,847,582</u>

Airport

Deposits	\$ 312,315
Investments	963,331
Total Cash and Investments	<u>\$ 1,275,646</u>

Library

Deposits	\$ 54,905
Investments	169,723
Total Cash and Investments	<u>\$ 224,628</u>

Cash and Investments - Primary Government	\$ 10,847,582
Cash and Investments - Airport	1,275,646
Cash and Investments - Library	224,628
Total Cash and Investments	<u>\$ 12,347,856</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments – Primary Government and Library/Airport Component Units (Pooled with Primary Government) (Continued)

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

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

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

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

Assets measured at fair value on a recurring basis:

Type	Level 1	Level 2	Level 3	Total
Negotiable CD's	\$ -	\$ 5,473,897	\$ -	\$ 5,473,897

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments - Primary Government and Library/Airport Component Units (Pooled with Primary Government) (Continued)

Brainerd Public Utilities (BPU) – Component Unit

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. BPU does not have a specific policy regarding interest rate risk.

Information about the sensitivity of the fair values of BPU's investments to market interest rate fluctuations is provided by the following table that shows the distribution of BPU's investments at December 31, 2017 by maturity:

Investment Type	Remaining Maturity (in Months)			
	Total Amount	12 Months or Less	13 to 60 Months	More than 60 Months
Negotiable CD's	\$ 4,330,136	\$ 1,670,358	\$ 1,711,135	\$ 948,643
FNMA	1,775,090	-	288,147	1,486,943
FHLMC	967,756	-	-	967,756
Commercial Paper	1,078,989	1,078,989	-	-
Total	<u>\$ 8,151,971</u>	<u>\$ 2,749,347</u>	<u>\$ 1,999,282</u>	<u>\$ 3,403,342</u>

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. 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, 2017 are as follows:

Investment Type	S & P Rating
Negotiable CDs	Not Rated
FNMA	AA+
FHLMC	AA+
Commercial Paper	A1

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments - Primary Government and Library/Airport Component Units (Pooled with Primary Government) (Continued)

Brainerd Public Utilities (BPU) – Component Unit (Continued)

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. Investment in any one issuer that represent 5% or more of total BPU investments as of December 31, 2017 was commercial paper held with Credit Agricole CRP&IN at 13.2%.

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. BPU does not have a policy for custodial credit risk over investments.

Fair Value Measurements

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

Assets measured at fair value on a recurring basis:

<u>Type</u>	<u>12/31/2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Negotiable CD's	\$ 4,330,136	\$ -	\$ 4,330,136	\$ -
FNMA Securities	1,775,090	-	1,775,090	-
FHLMC Securities	967,756	-	967,756	-
Commercial Paper	1,078,989	1,078,989	-	-
Total Investments by Fair Value Level	<u>\$ 8,151,971</u>	<u>\$ 1,078,989</u>	<u>\$ 7,072,982</u>	<u>\$ -</u>

Housing and Redevelopment Authority of Brainerd (HRA) – Component Unit

The Authority held no investments as of December 31, 2017.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Interfund Receivables, Payables, and Transfers

At December 31, 2017, due from/to other funds were as follows:

Due To	Due From						Total
	Other Governmental Funds	Public Safety Fund	Sanitary Sewer Collection System	Storm Sewer Fund	General Fund	Capital Projects Fund	
General Fund	\$ 22,668	\$ -	\$ 234,648	\$ 33,474	\$ -	\$ -	\$ 290,790
Public Safety Fund	6,701	-	-	-	-	-	6,701
Park and Recreation Fund	3,437	-	-	-	-	-	3,437
Street Fund	22,298	-	-	-	-	-	22,298
Sanitary Sewer Collection System	-	-	-	-	-	1,397,732	1,397,732
Capital Projects Fund	-	42,800	92,103	-	329,000	-	463,903
Total	\$ 55,104	\$ 42,800	\$ 326,751	\$ 33,474	\$ 329,000	\$ 1,397,732	\$ 2,184,861

Some balances are to record utility payments that will be paid next year. Other balances from Sanitary and Storm Sewer are to help pay for projects that are being paid for in the capital projects fund and will be repaid next year. The last balances noted are from negative cash and will be repaid next year.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers for the year ended December 31, 2017 were as follows:

Transfer Out	Transfer In:					Total
	General Fund	Street Fund	Park and Recreation Fund	Debt Service Fund	Capital Projects Fund	
General Fund	\$ -	\$ -	\$ 21,765	\$ -	\$ 358,600	\$ 380,365
Public Safety Fund	-	-	-	57,120	189,593	246,713
Park & Rec Fund	-	-	-	-	1,800	1,800
Capital Projects Fund	-	-	200	-	-	200
Other Governmental Funds	1,454	10,844	-	-	333,008	345,306
Debt Service Fund	-	-	-	-	5,862	5,862
Total	\$ 1,454	\$ 10,844	\$ 21,965	\$ 57,120	\$ 888,863	\$ 980,246

Transfers are used to 1) move revenues to cover various expenditures in other funds which were approved by the council, 2) to close out funds, or 3) transfer excess funds back to the general fund due to budget cuts.

4. Bonds and Notes Receivable

The City had the following notes receivable as of December 31, 2017:

Special Revenue Funds	Amount
Revolving Loans Fund	
<u>Housing Revolving Loans</u>	
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.	\$ 65,475
<u>Commercial Revolving Loans</u>	
Brainerd Mobile, Inc.; 120 monthly payments of \$402, including interest at 6%, commencing March 1999, and ending April 2019; secured by property, equipment, and inventory.	6,907
Stern Companies, Inc.; 28 monthly payments of \$701, including interest at 4%, commencing October 2012; secured by existing equipment.	14,464
Adventure Creative Group; 240 monthly payments of \$485, including interest at 4%, commencing September 2009; secured by a mortgage.	55,900
Total Commercial Revolving Loans	77,271

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Bonds and Notes Receivable (Continued)

Special Revenue Funds (Continued)	Amount
Revolving Loans Fund (Continued)	
<u>Small Cities Development Program (SCDP)</u>	
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).	\$ 92,224
Notes ranged from \$17,000-\$30,000; no interest loans were issued; the notes are only repaid from 0-9 years at 100%, 10-19 years at 50% and 20 plus years the note is forgiven; repayment proceeds will be due upon sale or change in ownership.	87,150
Developed in order to financially assist commercial and rental rehabilitation in the downtown area of the City. The loans are provided for commercial and rental projects. They are due upon transfer or sale of property and are forgiven in 10 years if property remains under current ownership.	605,253
Developed in order to financially assist commercial and residential rehabilitation of the southeast area of the City. The loans are provided for commercial and residential projects. They are due upon transfer or sale of property and are forgiven in 10 years if property remains under current ownership.	520,722
Total Small Cities Development Program (SCDP)	1,305,349
Total Revolving Loan Funds	\$ 1,448,095

Component Unit

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

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Bonds and Notes Receivable (Continued)

Component Unit (Continued)

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

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

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

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

Additions to notes receivable are recorded as Capital Contributions on the Statements of Revenues, Expenses, and Changes in Net Position. Interest accrued on the notes receivables as of December 31, 2017, of \$66,700, is recorded as a restricted asset. Interest received from Baxter which is recorded as Interest Income for the year ended December 31, 2017, was \$195,055.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 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, 2017 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land and Permanent Easements	\$ 3,615,052	\$ 5,273	\$ -	\$ 3,620,325
Construction-in-Progress	130,083	16,378	(99,345)	47,116
Total Capital Assets, Not Being Depreciated	3,745,135	21,651	(99,345)	3,667,441
Capital Assets, Being Depreciated				
Land Improvements	2,227,741	-	-	2,227,741
Buildings	7,260,950	26,502	-	7,287,452
Improvements Other Than Buildings	4,950,197	72,706	-	5,022,903
Machinery and Equipment	4,926,972	366,446	(284,215)	5,009,203
Infrastructure	37,396,208	1,894,044	(371,517)	38,918,735
Motor Vehicles	3,063,313	192,644	(182,260)	3,073,697
Office Equipment	551,670	21,908	(39,397)	534,181
Total Capital Assets, Being Depreciated	60,377,051	2,574,250	(877,389)	62,073,912
Less Accumulated Depreciation for				
Land Improvements	(417,302)	(62,963)	-	(480,265)
Buildings	(3,331,282)	(197,631)	-	(3,528,913)
Improvements Other Than Buildings	(3,782,588)	(67,072)	-	(3,849,660)
Machinery and Equipment	(3,985,779)	(246,839)	279,976	(3,952,642)
Infrastructure	(13,089,657)	(1,099,953)	322,777	(13,866,833)
Motor Vehicles	(1,877,557)	(325,589)	182,260	(2,020,886)
Office Equipment	(365,830)	(69,763)	39,397	(396,196)
Total Accumulated Depreciation	(26,849,995)	(2,069,810)	824,410	(28,095,395)
Total Capital Assets, Being Depreciated, Net	33,527,056	504,440	(52,979)	33,978,517
Governmental Activities Capital Assets, Net	<u>\$ 37,272,191</u>	<u>\$ 526,091</u>	<u>\$ (152,324)</u>	<u>\$ 37,645,958</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 79,123	\$ 61,742	\$ -	\$ 140,865
Construction in Progress	3,717,273	28,473	(3,653,643)	92,103
Total Capital Assets not depreciated	3,796,396	90,215	(3,653,643)	232,968
Capital Assets, Being Depreciated:				
Improvements Other Than Buildings	24,966	-	-	24,966
Machinery and Equipment	329,212	3,279	(10,149)	322,342
Infrastructure	22,567,258	4,518,276	-	27,085,534
Motor Vehicles	63,050	-	-	63,050
Total Capital Assets being Depreciated	22,984,486	4,521,555	(10,149)	27,495,892
Less Accumulated Depreciation For:				
Improvements Other Than Buildings	(21,012)	(1,248)	-	(22,260)
Machinery and Equipment	(311,962)	(3,134)	10,149	(304,947)
Infrastructure	(9,125,349)	(627,255)	-	(9,752,604)
Motor Vehicles	(63,050)	-	-	(63,050)
Total Accumulated Depreciation	(9,521,373)	(631,637)	10,149	(10,142,861)
Total Capital Assets, Being Depreciated, Net	13,463,113	3,889,918	-	17,353,031
Business-Type Activities Capital Assets, Net	<u>\$ 17,259,509</u>	<u>\$ 3,980,133</u>	<u>\$ (3,653,643)</u>	<u>\$ 17,585,999</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

Depreciation Expense was charged to functions/programs of the Primary Government as follows:

Governmental Activities	
General Government	\$ 103,571
Public Safety	414,978
Public Works	1,448,762
Culture and Recreation	102,499
Total Depreciation Expense - Governmental Activities	\$ 2,069,810
Business-Type Activities	
Sanitary Sewer System	\$ 387,321
Storm Fund	244,316
Total Depreciation Expense - Business-Type Activities	\$ 631,637

Capital asset activity for the Brainerd Public Library for the year ended December 31, 2017 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 9,041	\$ -	\$ -	\$ 9,041
Capital Assets, Being Depreciated				
Buildings	1,730,490	-	-	1,730,490
Improvements Other Than Buildings	119,924	-	-	119,924
Total Capital Assets, Being Depreciated	1,850,414	-	-	1,850,414
Less Accumulated Depreciation for				
Buildings	(1,414,199)	(47,149)	-	(1,461,348)
Improvements Other Than Buildings	(41,235)	(257)	-	(41,492)
Total Accumulated Depreciation	(1,455,434)	(47,406)	-	(1,502,840)
Total Capital Assets, Being Depreciated, Net	394,980	(47,406)	-	347,574
Component Unit - Library Capital Assets, Net	\$ 404,021	\$ (47,406)	\$ -	\$ 356,615

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

Capital asset activity for the Brainerd Lakes Regional Airport for the year ended December 31, 2017 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 971,423	\$ -	\$ -	\$ 971,423
Construction in Progress	1,639,049	1,364,289	(1,568,390)	1,434,948
Total Capital Assets, Not Being Depreciated	<u>2,610,472</u>	<u>1,364,289</u>	<u>(1,568,390)</u>	<u>2,406,371</u>
Capital Assets, Being Depreciated				
Buildings	15,504,534	-	-	15,504,534
Improvements Other Than Buildings	2,054,457	-	-	2,054,457
Machinery and Equipment	4,693,214	-	(335,603)	4,357,611
Infrastructure	33,105,113	257,715	-	33,362,828
Motor Vehicles	56,330	-	-	56,330
Office Equipment	14,179	4,300	-	18,479
Total Capital Assets, Being Depreciated	<u>55,427,827</u>	<u>262,015</u>	<u>(335,603)</u>	<u>55,354,239</u>
Less Accumulated Depreciation for				
Buildings	(5,565,374)	(682,985)	-	(6,248,359)
Improvements Other Than Buildings	(1,499,064)	(66,332)	-	(1,565,396)
Machinery and Equipment	(3,419,329)	(277,779)	335,603	(3,361,505)
Infrastructure	(14,788,773)	(1,627,893)	-	(16,416,666)
Motor Vehicles	(37,657)	(6,403)	-	(44,060)
Office Equipment	(11,516)	(2,374)	-	(13,890)
Total Accumulated Depreciation	<u>(25,321,713)</u>	<u>(2,663,766)</u>	<u>335,603</u>	<u>(27,649,876)</u>
Total Capital Assets, Being Depreciated, Net	<u>30,106,114</u>	<u>(2,401,751)</u>	<u>-</u>	<u>27,704,363</u>
Component Unit - Airport Capital Assets, Net	<u>\$ 32,716,586</u>	<u>\$ (1,037,462)</u>	<u>\$ (1,568,390)</u>	<u>\$ 30,110,734</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 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, 2017 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ 6,887,602	\$ 2,229,623	\$ (9,023,339)	\$ 93,886
Capital Assets, Being Depreciated				
Electric	37,214,921	3,037,457	(144,915)	40,107,463
Water	16,748,651	6,439,993	(26,452)	23,162,192
Wastewater Treatment	34,979,059	1,293,785	(149,261)	36,123,583
General Plant	5,734,423	121,239	(55,766)	5,799,896
Total Capital Assets, Being Depreciated	94,677,054	10,892,474	(376,394)	105,193,134
Accumulated Depreciation	(37,161,383)	(4,012,872)	341,659	(40,832,596)
Total Capital Assets, Being Depreciated, Net	57,515,671	6,879,602	(34,735)	64,360,538
Component Unit - BPU Capital Assets, Net	<u>\$ 64,403,273</u>	<u>\$ 9,109,225</u>	<u>\$ (9,058,074)</u>	<u>\$ 64,454,424</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 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, 2017 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 77,400	\$ -	\$ -	\$ 77,400
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 374,262	\$ -	\$ -	\$ 374,262
Construction in Progress	278,478	277,478	(544,243)	11,713
Total Capital Assets, Not Being Depreciated	652,740	277,478	(544,243)	385,975
Capital Assets, Being Depreciated				
Buildings and Improvements	12,820,715	673,517	(24,078)	13,470,154
Furniture, Fixtures and Equipment	376,936	5,681	(23,475)	359,142
Total Capital Assets, Being Depreciated	13,197,651	679,198	(47,553)	13,829,296
Less Accumulated Depreciation for				
Buildings and Improvements	(9,342,629)	(287,367)	14,382	(9,615,614)
Furniture, Fixtures and Equipment	(299,504)	(12,288)	23,475	(288,317)
Total Accumulated Depreciation	(9,642,133)	(299,655)	37,857	(9,903,931)
Total Capital Assets, Being Depreciated, Net	3,555,518	379,543	(9,696)	3,925,365
Component Unit - Brainerd HRA Capital Assets, Net	\$ 4,285,658	\$ 657,021	\$ (553,939)	\$ 4,388,740

B. Liabilities

1. Long-Term Debt

Primary Government

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, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Primary Government (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 (e.g., foreclosure proceeds), are received. The airport improvement bonds represent the City's 50% share of the total bonds outstanding.

The City issued \$1,855,000 in General Obligation advanced refunding bonds, series 2015C for a 2007B Special Assessments Bond maturing in 2018 and 2007B Utility Revenue Bonds (\$1,035,000 and \$820,000 respectively).

A portion of the Utility Revenue Bonds was an advanced refunding of the 2007B Utility Revenue Bonds (\$820,000).

On July 20, 2016, the City of Brainerd issued \$9,690,000 in G.O. Utility Revenue Bonds related to the extension of water and sewer utility services to the Brainerd Lakes Regional Airport. The allocation of the bonds are 50% related to water, or \$4,845,000; 12% related to wastewater treatment lift stations and forcemains, or \$1,162,800; 38% related to sanitary sewer lines, or \$3,682,200. BPU will be responsible for 62% of debt service or \$6,007,800 and the City will be responsible for 38% of debt service or \$3,682,200. The Bonds have a term of 20 years maturing in 2036 with the first payment on April 1, 2017.

On July 20, 2016, the City of Brainerd issued \$1,075,000 in G.O. Equipment Certificates of Indebtedness of which \$401,835 will be the responsibility of BPU. The Certificates have a term of 5 years maturing in 2021 with interest rates from 0.9% to 1.3%. First payment was made February 1, 2017.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Primary Government (Continued)

General Obligation Bonds (Continued)

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			
Airport Improvement Refunding Bonds, Series 2010A	1.00-3.35%	\$ 1,770,000	\$ 432,500
GENERAL OBLIGATION SPECIAL ASSESSMENT IMPROVEMENT BONDS			
Series 2009A	2.50-4.00%	2,715,000	875,000
Series 2010A	0.50-2.75%	1,670,000	670,000
Series 2011A	2.00-2.30%	980,000	485,000
Series 2011B	0.50-1.80%	2,085,000	415,000
Series 2012A	0.50-1.60%	845,000	490,000
Series 2013A	2.00-3.00%	795,000	570,000
Series 2015A	2.25-4.00%	725,000	595,000
Series 2015B	1.75-2.75%	245,000	215,000
Series 2015C	3.00%	1,035,000	510,000
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS			
Series 2015B	1.75-2.05%	635,000	490,000
GENERAL OBLIGATION REVENUE BONDS			
Series 2015C	3.00%	540,000	470,000
Series 2015C	3.00%	280,000	245,000
Series 2016A	2.00 - 5.00%	3,682,200	3,526,400
EQUIPMENT CERTIFICATES			
Series 2016B	2.00%	673,165	538,532
Total Primary Government General Obligation Bonds		<u>\$ 18,675,365</u>	<u>\$ 10,527,432</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Component Unit - BPU

Electric Utilities Revenue Bonds

On September 1, 2007, the City of Brainerd, on behalf of BPU, issued \$11,140,000 in Electric Utility Revenue Bonds, Series 2007A, with interest rates from 4.000% to 4.375%, maturing in December 2022, for electric distribution system improvements, including the purchase of three 47.5 kV transformers at the main substation. These bonds were refunded on December 1, 2017 with the issuance of the Electric Utility Revenue and Refunding Bonds, Series 2017A. The total cash savings to the City attributable to the refunding and defeasance of these bonds is \$1,020,306 with a net present value savings of approximately \$1,262,000.

General Obligation Revenue Notes

On May 4, 2009, the City, on behalf of BPU, entered into a project loan agreement in the amount of \$25,966,788 between the State of Minnesota, by and through the PFA and the BPU, for eligible costs related to the wastewater treatment facility expansion. The City, on behalf of BPU, issued a General Obligation Build America Bonds to the PFA, evidencing its obligation to repay the loan. The interest rate on the loan is 3.23% and the loan matures August 20, 2028.

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

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

On December 15, 2014, the City of Brainerd, on behalf of BPU, issued \$1,700,000 in Water Utility Revenue Bonds, Series 2015A, with interest rates from 2.25% to 4.00%, maturing in December 2025, for water distribution system improvements, including the rehabilitation of two elevated water towers and improvements to well equipment and pumps.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Component Unit - BPU (Continued)

Electric Utility Revenue Bonds, Series 2007A and 2014A

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

General Obligation Sewer Revenue Notes and General Obligation Build America Bonds

The resolutions authorizing the issuance of General Obligation Sewer Revenue Notes and General Obligation Build America Bonds contain various covenants, reserve fund requirements, and obligations which BPU must comply. To comply with coverage test, local option sales tax proceeds received equaling 105% of the following year's principal and interest payment is reported as restricted cash and investment. The amount shown as restricted cash and investments as of December 31, 2017 was \$1,858,899. The Interest payments are made semi-annually on February 20 and August 20, and principal payments on August 20.

Water Utility Revenue Bonds, Series 2015A

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

General Obligation Utility Revenue Bonds, Series 2016A

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

General Obligation Equipment Certificates of Indebtedness, Series 2016B

The resolutions authorizing the issuance of equipment certificates of indebtedness contain various covenants, reserve fund requirements, and obligations which BPU must comply. The amount shown as restricted cash and investments as of December 31, 2017 was \$88,644. The interest payments are made semi-annually on February 1 and August 1, and principal payments on February 1.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Component Unit - BPU (Continued)

Electric Utilities Revenue bonds, General Obligation Sewer Revenue Note and General Obligation Build America Bond currently outstanding for the component units (BPU) are as follows:

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
Electric Utility Revenue Bonds, Series 2014A	2.00-4.00%	\$ 6,070,000	\$ 5,025,000
Electric Utility Revenue and Refunding Bonds, Series 2017	2.00-4.00%	6,035,000	6,035,000
Water Utility Revenue Bonds, Series 2015A	2.00-4.00%	1,700,000	1,380,000
General Obligation Build America Bond, Series 2009	3.23%	25,966,788	16,978,000
General Obligation Utility Revenue Note, Series 2016A	1.625-5.0%	6,007,800	5,753,600
General Obligation Equipment Certificates, Series 2016B	2.00%	401,835	321,468
Total Component Units		<u>\$ 46,181,423</u>	<u>\$ 35,493,068</u>

Component Unit - HRA

Mortgage Note

The HRA entered into a \$250,000 long-term promissory note agreement to refinance a short-term note that was used to finance cash flow needs relating to the Brainerd Oaks housing development project, which is now being carried under the general fund of the HRA. This note was refinanced in December 2012 and now bears 3.95% interest and will mature December 9, 2018. The note is secured by a mortgage on the HRA's office building.

Taxable Tax Increment Note

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.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Component Unit – HRA (Continued)

Second Mortgage Payable

Trail Ridge II entered into their second mortgage (MHFA Affordable Rental Investment fund Loan) payable to Minnesota Housing Finance Agency (MHFA) in the original amount of \$450,000 dated January 12, 1998, with interest at 1%. Principal and interest are due January 28, 2028. The mortgage is secured by the Project.

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

	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
Taxable Tax Increment Note, Series 2005	6.96	\$ 753,000	\$ 394,000
2007 Mortgage note	3.95	250,000	97,377
MHFA - ARIF	1.00	450,000	450,000
Total Component Units		<u>\$ 1,453,000</u>	<u>\$ 941,377</u>

Other Long-Term Liabilities

Primary Government

The City has ten outstanding capital leases for equipment. In 2014, the City entered into a lease agreement for a copy machine for the parks department. In 2015, the City entered into a lease agreement for four department copy machines. In 2016, the City entered into a lease agreement as lessee for financing the acquisition of a postage machine, and four vehicles for various departments. Also in 2017, the City entered into lease agreements for four additional vehicles for various departments. 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.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Other Long-Term Liabilities (Continued)

The assets acquired through capital leases, are as follows:

Equipment	\$	268,380
Less: Accumulated Depreciation		(85,407)
Total		\$ 182,973

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

2018	\$	62,131
2019		59,269
2020		46,192
2021		20,946
2022		6,783
Total Minimum Lease Payments		195,321
Less: Amount Representing Interest		(6,597)
Present Value of Minimum Lease Payments		\$ 188,724

Component Units

The Airport entered into a hangar financing contract of \$332,552 with the Minnesota Department of Aeronautics for the construction of a five unit 'T' hangar in 2010. The contract is interest free and requires 120 monthly installment payments of \$2,771 commencing in March 2010.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Other Long-Term Liabilities (Continued)

A summary of other long-term liabilities payable as of December 31, 2017 is as follows:

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
PRIMARY GOVERNMENT			
Capital Lease Payable	11 - 12%	\$ 268,380	\$ 188,724
COMPONENT UNITS			
Airport			
Contract Payable - State of Minnesota	N/A	332,552	72,077
HRA			
Notes Payable	Variable	<u>250,000</u>	<u>97,377</u>
Total Component Units		<u>582,552</u>	<u>169,454</u>
Total Reporting Entity		<u>\$ 850,932</u>	<u>\$ 358,178</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

A summary of long-term debt transactions for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities					
General Obligation Bonds Payable					
General Obligation Bonds	\$ 512,500	\$ -	\$ (80,000)	\$ 432,500	\$ 80,000
General Obligation Capital Improvement Bonds	570,000	-	(80,000)	490,000	75,000
Equipment Certificates	823,165	-	(284,633)	538,532	131,502
Special Assessment Improvement Bonds	6,525,000	-	(1,700,000)	4,825,000	1,530,000
Issuance Premium (Discount)	131,471	-	(29,842)	101,629	-
Total Bonds Payable	8,562,136	-	(2,174,475)	6,387,661	1,816,502
Capital Leases	145,541	91,682	(48,499)	188,724	58,864
Compensated Absences	1,316,667	590,936	(559,445)	1,348,158	253,517
Governmental Activity Long-Term Liabilities	<u>\$ 10,024,344</u>	<u>\$ 682,618</u>	<u>\$ (2,782,419)</u>	<u>\$ 7,924,543</u>	<u>\$ 2,128,883</u>
Business-Type Activities					
General Obligation Utility Revenue Bonds	\$ 4,502,200	\$ -	\$ (260,800)	\$ 4,241,400	\$ 301,200
Compensated Absences	51,860	9,328	(11,170)	50,018	9,405
Issuance Premium (Discount)	414,441	-	(32,084)	382,357	-
Business-Type Activity Long-Term Liabilities	<u>\$ 4,968,501</u>	<u>\$ 9,328</u>	<u>\$ (304,054)</u>	<u>\$ 4,673,775</u>	<u>\$ 310,605</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

A summary of long-term debt transactions for the year ended December 31, 2017 is as follows:

Component Units	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Brainerd Lakes Regional Airport					
Contracts Payable	\$ 105,329	\$ -	\$ (33,252)	\$ 72,077	\$ 33,252
Compensated Absences	110,105	46,435	(33,692)	122,848	23,102
Brainerd Crow Wing County Regional Airport Long-Term Liabilities	<u>\$ 215,434</u>	<u>\$ 46,435</u>	<u>\$ (66,944)</u>	<u>\$ 194,925</u>	<u>\$ 56,354</u>
Brainerd Public Utilities					
Electric Utility Revenue Bonds	\$ 16,777,800	\$ 6,035,000	\$ (5,999,200)	\$ 16,813,600	\$ 795,000
Water Utility Revenue Bonds	1,540,000	-	(160,000)	1,380,000	468,800
Revenue Bond Premium	882,101	-	(68,866)	813,235	-
General Obligation Revenue Note	217,000	-	(217,000)	-	-
General Obligation Build America Bond	18,247,000	-	(1,269,000)	16,978,000	1,310,000
General Obligation Certificates	401,835	-	(80,367)	321,468	78,498
Capital Lease Payable	106,849	-	(26,931)	79,918	27,915
Compensated Absences	687,590	429,223	(403,074)	713,739	-
Brainerd Public Utilities Long-Term Liabilities	<u>\$ 38,860,175</u>	<u>\$ 6,464,223</u>	<u>\$ (8,224,438)</u>	<u>\$ 37,099,960</u>	<u>\$ 2,680,213</u>
Housing and Redevelopment					
Authority of Brainerd					
Revenue Bonds Payable	\$ 24,714	\$ -	\$ (24,714)	\$ -	\$ -
Tax Increment Note Payable	414,000	-	(20,000)	394,000	23,000
Mortgage Note Payable	473,620	-	(23,620)	450,000	-
Notes Payable	115,049	-	(17,672)	97,377	97,377
Compensated Absences	54,738	52,455	(44,487)	62,706	62,706
Housing and Redevelopment Authority of Brainerd Long-Term Liabilities	<u>\$ 1,082,121</u>	<u>\$ 52,455</u>	<u>\$ (130,493)</u>	<u>\$ 1,004,083</u>	<u>\$ 183,083</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (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			General Obligation Utility Revenue Bonds		
	Governmental Activities			Business-Type Activities	
	Principal	Interest		Principal	Interest
2018	\$ 80,000	11,829	2018	\$ 301,200	\$ 143,182
2019	82,500	9,714	2019	312,600	130,422
2020	87,500	7,246	2020	325,200	117,017
2021	90,000	4,516	2021	341,600	103,082
2022	92,500	1,549	2022	343,000	88,652
Total	<u>\$ 432,500</u>	<u>\$ 34,854</u>	2023-2027	1,439,800	244,154
			2028-2031	<u>1,178,000</u>	<u>63,051</u>
			Total	<u>\$ 4,241,400</u>	<u>\$ 889,560</u>

General Obligation Special Assessment Improvement Bonds			General Obligation Capital Improvement Bonds		
	Governmental Activities			Governmental Activities	
	Principal	Interest		Principal	Interest
2018	\$ 1,530,000	\$ 108,026	2018	\$ 75,000	\$ 8,429
2019	1,020,000	74,684	2019	80,000	7,073
2020	815,000	49,492	2020	80,000	5,673
2021	530,000	30,934	2021	85,000	4,229
2022	355,000	19,769	2022	85,000	2,614
2023-2026	575,000	18,728	2023	85,000	871
Total	<u>\$ 4,825,000</u>	<u>\$ 301,633</u>	Total	<u>\$ 490,000</u>	<u>\$ 28,889</u>

Equipment Certificates			Capital Leases		
	Governmental Activities			Governmental Activities	
	Principal	Interest		Principal	Interest
2018	\$ 131,502	\$ 9,456	2018	\$ 58,864	\$ 3,267
2019	134,633	6,794	2019	57,246	2,023
2020	134,633	4,102	2020	45,264	928
2021	137,764	1,378	2021	20,630	316
Total	<u>\$ 538,532</u>	<u>\$ 21,730</u>	2022	6,720	63
			Total	<u>\$ 188,724</u>	<u>\$ 6,597</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. 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:

	BPU					
	Revenue Bonds		Build America Bonds		Equipment Certificates	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,263,800	\$ 558,720	\$ 1,310,000	\$ 548,899	\$ 78,498	\$ 5,644
2019	1,337,400	501,737	1,352,000	506,546	80,368	4,056
2020	1,389,800	458,728	1,396,000	462,836	80,366	2,448
2021	1,473,400	414,088	1,441,000	417,704	82,236	822
2022	1,542,000	366,107	1,488,000	371,116	-	-
2023-2027	8,295,200	1,053,908	8,191,000	1,102,227	-	-
2028-2031	2,892,000	161,474	1,800,000	58,194	-	-
Total	<u>\$ 18,193,600</u>	<u>\$ 3,514,762</u>	<u>\$ 16,978,000</u>	<u>\$ 3,467,522</u>	<u>\$ 321,468</u>	<u>\$ 12,970</u>

	Airport			HRA	
	Contracts Payable			Mortgage Notes Payable	
	Principal	Interest		Principal	Interest
2018	\$ 33,252	\$ -	2018	\$ -	\$ 4,500
2019	33,252	-	2019	-	4,500
2020	5,573	-	2020	-	4,500
Total	<u>\$ 72,077</u>	<u>\$ -</u>	2021	-	4,500
			2022	-	4,500
			2023-2027	-	22,500
			2028	450,000	4,500
			Total	<u>\$ 450,000</u>	<u>\$ 49,500</u>

	HRA			
	Notes Payable		Tax Increment note	
	Principal	Interest	Principal	Interest
2018	\$ 97,377	\$ -	\$ 23,000	\$ 27,039
2019	-	-	26,000	25,369
2020	-	-	29,000	23,525
2021	-	-	32,000	21,437
2022	-	-	36,000	19,140
2023-2027	-	-	248,000	50,876
Total	<u>\$ 97,377</u>	<u>\$ -</u>	<u>\$ 394,000</u>	<u>\$ 167,386</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Conduit Debt Obligations

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, 2017, the following conduit debt existed:

Lease Revenue Bonds	<u>\$ 1,355,000</u>
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**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

3. 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 5 PENSION PLANS

A. Public Employees Retirement Association

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

1. General Employees Retirement Fund (General Employees Plan)

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Plan (Police and Fire Plan)

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 PENSION PLANS (CONTINUED)

B. Benefits Provided

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

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

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

1. General Employees Plan Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

2. Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 PENSION PLANS (CONTINUED)

C. Contributions

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

1. General Employees Plan Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City and BPU were required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City contributions to the General Employees Plan for the year ended December 31, 2017, were \$202,498. BPU contributions to the General Employees Plan for the year ended December 31, 2017, were \$258,176. The City and BPU contributions were equal to the required contributions as set by state statute.

2. Police and Fire Plan Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The City was required to contribute 16.20% of pay for Police and Fire Plan members in calendar year 2017. The City contributions to the Police and Fire Plan for the year ended December 31, 2017, were \$309,929. The City contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$2,636,565 for its proportionate share of the General Employees Fund's net pension liability and BPU reported a liability of \$3,460,092 for its proportionate share of the General Employees Fund's net pension liability. The City and BPU's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$33,145 and the State of Minnesota's proportionate share of the net pension liability associated with BPU totaled \$43,509. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City proportionate share was 0.0413%, which was a decrease of 0.0024% from its proportion as measured at June 30, 2016. At June 30, 2017, BPU's proportionate share was 0.0542% which was an increase of 0.0022% from its proportion measured as of June 30, 2016.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2017, the City recognized pension expense of \$297,928 for its proportionate share of the General Employees Fund's pension expense and BPU recognized pension expense of \$557,506 for its proportionate share of the General Employees Fund's pension expense. In addition, the City recognized an additional \$957 as pension expense (and grant revenue) and BPU recognized an additional \$1,257 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

Description	City		BPU	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 86,893	\$ 169,617	\$ 114,034	\$ 222,596
Changes in Actuarial Assumptions	437,726	264,316	574,450	346,875
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	17,029	-	22,348	-
Changes in Proportion and Differences Between City/BPU Contributions and Proportionate Share of Contributions	-	180,710	128,426	56,962
City/BPU Contributions Subsequent to the Measurement Date	101,417	-	129,426	-
Total	<u>\$ 643,065</u>	<u>\$ 614,643</u>	<u>\$ 968,684</u>	<u>\$ 626,433</u>

\$101,417 and \$129,426 reported as deferred outflows of resources related to pensions resulting from City and BPU contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	City Pension Expense Amount	BPU Pension Expense Amount
2018	\$ 18,723	\$ 191,092
2019	104,018	203,067
2020	(83,818)	(34,459)
2021	(111,918)	(146,875)

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2017, the City reported a liability of \$2,470,718 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City proportionate share was 0.183%, which was a decrease of 0.025% from its proportion as measured at June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$499,636 for its proportionate share of the Police and Fire Plan's pension expense. The City also recognized \$16,470 for the year ended December 31, 2017, as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Plan. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 3,233,427	\$ 660,519
Changes in Actuarial Assumptions	56,870	3,507,807
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	33,933	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	5,400	523,874
City Contributions Subsequent to the Measurement Date	157,906	-
Total	<u>\$ 3,487,536</u>	<u>\$ 4,692,200</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

\$157,906 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expenses Amount
2018	\$ (68,941)
2019	(68,941)
2020	(159,512)
2021	(306,135)
2022	(759,041)

E. Actuarial Assumptions

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

Assumptions	
Inflation	2.50% per Year
Salary Increases	3.50% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5% thereafter for both plans.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for police and fire plan was completed in 2016.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and non-vested, deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.

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

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

F. Discount Rate

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

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

Description	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
City's Proportionate Share of the General Employees Fund Net Pension Liability:	\$ 4,089,508	\$ 2,636,565	\$ 1,447,067
BPU's Proportionate Share of the General Employees Fund Net Pension Liability:	5,366,860	3,460,092	1,899,056
City's Proportionate Share of the Police and Fire Fund Net Pension Liability:	4,653,082	2,470,718	669,055

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 PENSION PLANS (CONTINUED)

G. Pension Plan Fiduciary Net Position

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

H. Allocation

Below is the allocation of Deferred Outflows of Resources, Deferred Inflows of Resources, Net Pension Liability, and Pension Expense by opinion unit within the City:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Pension Liability	Pension Expense
Governmental Activities	\$ 4,252,147	\$ 5,452,241	\$ 4,907,873	\$ 816,882
Sanitary Sewer Fund	11,115	10,625	45,572	5,166
Storm Sewer Fund	3,847	3,677	15,771	1,788
Discretely Presented Component Unit - Airport	33,675	32,186	138,067	15,651
Total	<u>\$ 4,300,784</u>	<u>\$ 5,498,729</u>	<u>\$ 5,107,283</u>	<u>\$ 839,487</u>

I. 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 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 plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. 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% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 PENSION PLANS (CONTINUED)

I. Defined Contribution Plan (Continued)

Total contributions made by the City during fiscal year 2017 were:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employees	Employer	
\$ 2,702	\$ 2,702	5.00%	5.00%	5.00%

Component Unit – HRA – Defined Contribution Plan

Qualified employees of the HRA 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. The Plan and Trust are qualified under Section 401(a) of the Internal Revenue Code and their income is exempt from taxation under Section 501(a) of the Code. Plan provisions and contribution requirements are established and amended by the Board of Trustees.

Terminated or retiring participants are entitled to certain benefits including the full amount of their contributions to the Plan as well as earnings on their contributions. In addition to the amount of their contribution, each participant is entitled to the portion of the employer's contributions in which he or she has a vested interest.

Detailed information concerning the HRA's pension plan is presented in its publicly available annual report for the year ended December 31, 2017. That report may be obtained by contacting the HRA.

Plan Funding

The Plan is funded by employer and employee contributions (7.5% and 5.5% of gross wages, respectively). The HRA's contributions for the year ended December 31, 2017, 2016, and 2015 were \$57,480, \$50,822, and \$46,765, respectively.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN

A. Plan Description

Firefighters of the City of Brainerd are members of the Brainerd Firefighters Relief Association (the Association). The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The Plan is administered pursuant to Minnesota Statutes, Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2016, membership includes 39 active participants entitled to benefit but not yet receiving them. The Plan issues a stand-alone financial statement.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$8,750 for each year of active Fire Department service but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with five years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$8,750 for each year the member was an active member of the Brainerd Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10% of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN

C. Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). The minimum contribution from the City of Brainerd and state aid is determined as follows:

	Normal Cost
+	Amortization Payment on Unfunded Accrued Liability Prior to Any Change
+	Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change
+	Administrative Expenses
-	Anticipated State Aid
-	Projected Investment Earnings
<hr/>	
=	Total Contribution Required
<hr/>	

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$196,198 in fire state aid paid by the City to the Association for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2017 was \$-0-.

D. Pension Costs

At December 31, 2017, the City reported an asset of \$603,254 for the Association's net pension asset. The net pension asset was measured as of December 31, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN (CONTINUED)

D. Pension Costs (Continued)

As a result of its requirement to contribute to the Relief Association, the City recognized pension expense of \$24,496 for the year ended December 31, 2017. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 191,886
Changes in Actuarial Assumptions	15,885	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	96,203	-
City Contributions Subsequent to the Measurement Date	58,095	-
Total	<u>\$ 170,183</u>	<u>\$ 191,886</u>

The City contributions to the Association subsequent to the measurement date, \$58,095 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2018	\$ 12,800
2019	12,800
2020	8,064
2021	(38,033)
2022	(25,143)
Thereafter	(50,286)

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN (CONTINUED)

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	12/31/2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Actuarial Assumptions:	
Discount Rate	5.25%
Investment Rate of Return	5.25%
20-Year Municipal Bond Yield	3.50%
Age of Service Retirement	50

The best-estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best-estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Portfolio Weight	Expected Class Return
Cash	15.00 %	2.00 %
Fixed Income	28.00	3.50
Equities	56.00	7.00
Other	1.00	6.00
Total Portfolio	100.00 %	5.25

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension asset was 5.25%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

G. Pension Asset Sensitivity

The following presents the City of Brainerd's proportionate share of the net pension asset of the Association, calculated using the discount rate of 5.25%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%) than the current rate:

	1% Decrease in Discount Rate (4.25%)	Current Discount Rate (5.25%)	1% Increase in Discount Rate (6.25%)
Net Pension Liability (Asset)	\$ (529,140)	\$ (603,254)	\$ (674,941)

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN (CONTINUED)

H. Plan's Fiduciary Net Position

Information about the changes in the Plan's net pension asset is as follows:

Total Pension Liability	
Service Cost	\$ 155,063
Interest	141,169
Changes in Assumptions	18,154
Gain or Loss	(219,298)
Benefit Payments, Including Member Refunds	(361,338)
Net Change in Total Pension Liability	<u>(266,250)</u>
Total Pension Liability - Beginning of Year	<u>2,592,322</u>
Total Pension Liability - End of Year (a)	<u>2,326,072</u>
Plan Fiduciary Net Position	
Municipal Contributions	60,768
State Contributions	196,646
Net Investment Income	152,469
Benefit Payments	(361,338)
Administrative Expenses	(15,586)
Gain or Loss	64,449
Net Change in Fiduciary Net Position	<u>97,408</u>
Fiduciary Net Position - Beginning of Year	<u>2,831,918</u>
Fiduciary Net Position - End of Year (b)	<u>2,929,326</u>
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (603,254)</u>

Detailed information about the pension plan's fiduciary net position is available in the audit report. That report may be obtained by calling Brainerd City Hall at 218-828-2307.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The City provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The City provides benefits for retirees as required by Minnesota Statutes §471.61 subdivision 2b. Active employees who retire from the City when eligible to receive a retirement benefit from the PERA of Minnesota (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their spouse/partner under the City's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay the full amount of the total premium cost. As of January 1, 2015, there were five retired employees from the City and two from BPU that were receiving health benefits from the health plan.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost of 2017, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	City	Discretely Presented Component Units		
		Brainerd Public Utilities	Brainerd HRA	Brainerd Airport
Annual Required Contribution (ARC)	\$ 113,818	\$ 55,214	\$ 14,623	\$ 2,424
Interest on Net OPEB Obligation	14,327	220	2,562	124
Adjustment to ARC	(20,310)	(312)	(3,632)	(176)
Annual OPEB Cost	107,835	55,122	13,553	2,372
Contributions During the Year	(91,067)	(60,631)	(3,513)	(2,335)
Increase in Net Pension Obligation	16,768	(5,509)	10,040	37
Net Pension Obligation - Beginning of Year	358,155	5,509	64,053	3,098
Net Pension Obligation - End of Year	<u>\$ 374,923</u>	<u>\$ -</u>	<u>\$ 74,093</u>	<u>\$ 3,135</u>

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017 and the two previous years were as follows:

	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
City	December 31, 2017	\$ 107,835	\$ 91,067	84.5 %	\$ 374,923
Brainerd Public Utilities	December 31, 2017	55,122	60,631	110.0	-
Brainerd HRA	December 31, 2017	13,553	3,513	25.9	74,093
Brainerd Airport	December 31, 2017	2,372	2,335	98.4	3,135
City	December 31, 2016	108,337	78,256	72.2	358,155
Brainerd Public Utilities	December 31, 2016	54,924	66,752	121.5	5,509
Brainerd HRA	December 31, 2016	13,754	1,706	12.4	64,053
Brainerd Airport	December 31, 2016	2,385	1,640	68.8	3,098
City	December 31, 2015	112,227	69,761	62.2	328,074
Brainerd Public Utilities	December 31, 2015	49,810	49,108	98.6	17,337
Brainerd HRA	December 31, 2015	15,004	493	3.3	52,005
Brainerd Airport	December 31, 2015	2,331	827	35.5	2,353

Funding Status

The City currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero. The General Fund has been used to liquidate the net other postemployment benefit obligation for the City. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded Actuarial Accrued Liability (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
City	1/1/2015	\$ -	\$ 1,035,078	\$ 1,035,078	-	\$ 3,829,452	27.0 %
Brainerd Public Utilities	1/1/2015	-	482,663	482,663	-	2,083,138	23.2
Brainerd HRA	1/1/2015	-	88,998	88,998	-	728,639	12.2
Brainerd Airport	1/1/2015	-	10,137	10,137	-	336,026	3.0

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the January 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.00% discount rate, which is based on the estimated long-term investment yield on the general assets of the City. The annual healthcare cost trend rate is 7.25% initially, reduced incrementally to an ultimate rate of 5.00% after nine years. The inflation rate is 2.5% and salary increases are not applicable. The unfunded actuarial accrued liability is being amortized over thirty years on a closed basis.

NOTE 8 JOINT VENTURES

Shown on the combined financial statement as a discrete component unit, is the City's interest in the Brainerd Lakes Regional 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% undivided interest in the property, improvements and buildings of the airport.

NOTE 9 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, 2017 financial statements in relation to any of these matters.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 9 SUMMARY OF OTHER ITEMS (CONTINUED)

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 Uniform Guidance or audits by the grantor agency.

The City received Small Cities Development Program money during 2008. This money was then passed through to Art Space with the intention that in 30 years, it will be repaid to the City. If the City receives the money in 30 years, the City will develop a new plan to properly spend the grant money. This receivable is not recorded due to the likelihood of the City not receiving the money.

C. Commitments

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

NOTE 10 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, 2017, totaled \$672,823. BPU bills the City for all utility services at regular utility rates as set by the BPU Commission.

NOTE 11 RELATED-PARTY TRANSACTIONS

At December 31, 2017, a business owned by one of the City's council members owed the City's Revolving Loan Fund a balance of approximately \$6,907 under the City's local business revolving loan program.

**CITY OF BRAINERD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 12 TAX ABATEMENTS

The City has a pay-as-you-go tax increment financing district with a local business to promote housing development within the City as authorized under Minnesota Statutes § 469.174. The City is currently collecting tax increments that are paid through the property tax collection process. The district will stop collections in 2028. The requirement for the business to receive the excess tax increments from the City is to provide affordable housing to moderate and low income individuals. The agreement calls for 95% of the property tax increments collected to be returned to the developer. For the year ended December 31, 2017, the City paid excess tax increment in the amount of \$11,076. No other commitments were made by the City as a part of this agreement.

The City has pay-as-you-go tax increment financing districts with local businesses to promote redevelopment within the City as authorized under Minnesota Statutes §§ 469.124 through 469.134. The redevelopment TIF districts permits the City to assist with virtually any type of development or redevelopment project within the boundaries of the TIF districts. The City is currently collecting tax increments that are paid through the property tax collection process. The districts will stop collections from 2029 through 2035. The increment taxes are based on the increase of the property value after the improvements are made. The agreements call for 90% to 98.50% of the property tax increments collected to be returned to the developers. For the year ended December 31, 2017, the City paid excess tax increment in the amount of \$203,446. No other commitments were made by the City as a part of these agreements.

NOTE 13 SUBSEQUENT EVENTS

On February 22, 2018, the City issued General Obligation Bonds Series 2018A for \$5,295,000. The interest rate on the bond is 5% and is set to mature in 2027.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BRAINERD, MINNESOTA
BRAINERD FIREMAN'S RELIEF ASSOCIATION
SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND RELATED RATIOS
LAST THREE MEASUREMENT DATES**

	Measurement Date December 31, 2016	Measurement Date December 31, 2015	Measurement Date December 31, 2014
Total Pension Liability			
Service Cost	\$ 155,063	\$ 155,042	\$ 151,260
Interest	141,169	133,392	135,543
Changes in Assumptions	18,154	-	-
Changes in Benefit Terms	-	64,528	-
Gain or Loss	(219,298)	-	-
Benefit Payments, Including Member Refunds	(361,338)	(371,914)	(201)
Net Change in Total Pension Liability	<u>(266,250)</u>	<u>(18,952)</u>	<u>286,602</u>
Total Pension Liability - Beginning of Year	<u>2,592,322</u>	<u>2,611,274</u>	<u>2,324,672</u>
Total Pension Liability - End of Year (a)	<u>2,326,072</u>	<u>2,592,322</u>	<u>2,611,274</u>
Plan Fiduciary Net Position			
Municipal Contributions	60,768	57,324	46,833
State Contributions	196,646	209,218	203,105
Net Investment Income	152,469	162,876	152,718
Benefit Payments	(361,338)	(371,917)	(201)
Administrative Expenses	(15,586)	(18,356)	(14,697)
Other Changes	-	-	(23,681)
Gain or Loss	64,449	(230,483)	-
Net Change in Fiduciary Net Position	<u>97,408</u>	<u>(191,338)</u>	<u>364,077</u>
Fiduciary Net Position - Beginning of Year	<u>2,831,918</u>	<u>3,023,253</u>	<u>2,659,173</u>
Fiduciary Net Position - End of Year (b)	<u>2,929,326</u>	<u>2,831,915</u>	<u>3,023,250</u>
Association's Net Pension Liability/(Asset) - End of Year (a) - (b)	<u>\$ (603,254)</u>	<u>\$ (239,593)</u>	<u>\$ (411,976)</u>
Fiduciary Net Position as a Percentage of the Total Net Pension Asset	125.93%	109.24%	115.78%
Covered Payroll	N/A	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	N/A	N/A	N/A

Note: Information is presented prospectively and an accumulation of ten years will be provided when available.

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
CURRENT AND TWO PRECEDING VALUATIONS**

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
City	1/1/2009	\$ -	\$ 324,029	\$ 324,029	- %	\$ 5,345,143	6.1 %
Brainerd Public Utilities	1/1/2009	-	438,939	438,939	-	2,734,574	16.1
Brainerd HRA	1/1/2009	-	34,814	34,814	-	563,483	6.2
Brainerd Airport	1/1/2009	-	12,165	12,165	-	407,371	3.0
City	1/1/2012	-	769,793	769,793	-	2,748,363	28.0
Brainerd Public Utilities	1/1/2012	-	609,610	609,610	-	2,815,022	21.7
Brainerd HRA	1/1/2012	-	62,728	62,728	-	647,900	9.7
Brainerd Airport	1/1/2012	-	10,115	10,115	-	365,795	2.8
City	1/1/2015	-	1,035,078	1,035,078	-	3,829,452	27.0
Brainerd Public Utilities	1/1/2015	-	482,663	482,663	-	2,083,138	23.2
Brainerd HRA	1/1/2015	-	88,998	88,998	-	728,639	12.2
Brainerd Airport	1/1/2015	-	10,137	10,137	-	336,026	3.0

CITY OF BRAINERD, MINNESOTA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST THREE MEASUREMENT DATES

	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
General Employee Fund - City			
City's Proportion of the Net Pension Liability	0.0413%	0.0437%	0.0449%
City's Proportionate Share of the Net Pension Liability	\$ 2,636,565	\$ 3,548,223	\$ 2,326,952
State's Proportionate Share of the Net Pension Liability Associated with the City	33,145	46,267	-
Total City's Proportionate Share of the Net Pension Liability and State's Proportionate Share of the Net Pension Liability	<u>\$ 2,669,710</u>	<u>\$ 3,594,490</u>	<u>\$ 2,326,952</u>
City's Covered Payroll	\$ 2,659,329	\$ 2,710,025	\$ 2,639,880
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	99.14%	130.93%	88.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.91%	78.20%
General Employee Fund - BPU			
BPU's Proportion of the Net Pension Liability	0.0542%	0.0520%	0.0543%
BPU's Proportionate Share of the Net Pension Liability	\$ 3,460,092	\$ 4,222,142	\$ 2,814,108
State's Proportionate Share of the Net Pension Liability Associated with the City	43,509	55,060	-
Total City's Proportionate Share of the Net Pension Liability and State's Proportionate Share of the Net Pension Liability	<u>\$ 3,503,601</u>	<u>\$ 4,277,202</u>	<u>\$ 2,814,108</u>
BPU's Covered Payroll	\$ 3,491,769	\$ 3,224,539	\$ 3,189,264
BPU's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	99.09%	130.94%	88.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.91%	78.20%
Police and Fire Fund			
City's Proportion of the Net Pension Liability	0.1830%	0.2080%	0.2320%
City's Proportionate Share of the Net Pension Liability	\$ 2,470,718	\$ 8,347,402	\$ 2,636,063
City's Covered Payroll	\$ 1,777,822	\$ 2,000,021	\$ 2,123,949
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	138.97%	417.37%	124.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.40%	63.90%	78.20%

Note: Information is presented prospectively and an accumulation of ten years will be provided when available.

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF CITY PENSION CONTRIBUTIONS
LAST FOUR YEARS**

	2017	2016	2015	2014
General Employee Fund - City				
Contractually Required Contribution	\$ 202,498	\$ 196,628	\$ 205,880	\$ 188,278
Contributions in Relation to the Contractually Required Contribution	(202,498)	(196,628)	(205,880)	(188,278)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 2,699,973	\$ 2,621,712	\$ 2,745,076	\$ 2,596,929
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.25%
General Employee Fund - BPU				
Contractually Required Contribution	\$ 258,176	\$ 244,836	\$ 251,138	\$ 213,149
Contributions in Relation to the Contractually Required Contribution	(258,176)	(244,836)	(251,138)	(213,149)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 3,442,336	\$ 3,264,478	\$ 3,354,434	\$ 2,939,984
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.49%	7.25%
Police and Fire Fund - City				
Contractually Required Contribution	\$ 309,929	\$ 299,349	\$ 353,057	\$ 312,432
Contributions in Relation to the Contractually Required Contribution	(309,929)	(299,349)	(353,057)	(312,432)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 1,913,143	\$ 1,847,833	\$ 2,179,363	\$ 2,042,040
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%	15.30%
Fire Relief Association Plan				
Statutorily Required Contribution	\$ 196,198	\$ 194,646	\$ 206,218	\$ 203,105
Contributions in Relation to the Statutorily Required Contribution	(254,293)	(255,414)	(263,542)	(249,938)
Contribution Deficiency/(Excess)	<u>\$ (58,095)</u>	<u>\$ (60,768)</u>	<u>\$ (57,324)</u>	<u>\$ (46,833)</u>
Association's Covered Payroll	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A

Note: Information is presented prospectively and an accumulation of ten years will be provided when available.

**CITY OF BRAINERD, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017**

	BUDGET		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL		FINAL BUDGET
REVENUES				
Taxes	\$ 1,258,525	\$ 1,258,525	\$ 1,632,642	\$ 374,117
Licenses and Permits	320,865	320,865	391,487	70,622
Intergovernmental	345,299	251,702	159,409	(92,293)
Charges for Services	28,900	28,900	33,795	4,895
Special Assessments	25,000	25,000	36,072	11,072
Interest	6,000	6,000	10,759	4,759
Miscellaneous	461,445	461,445	469,209	7,764
Total Revenues	<u>2,446,034</u>	<u>2,352,437</u>	<u>2,733,373</u>	<u>380,936</u>
EXPENDITURES				
Current				
General Government				
Mayor and Council	143,875	143,875	127,953	(15,922)
City Administration	485,133	477,547	491,461	13,914
Legal	75,000	75,000	62,468	(12,532)
Engineering	88,799	90,162	137,528	47,366
Information Technology	224,854	235,916	234,845	(1,071)
Planning and Zoning	185,891	188,308	151,146	(37,162)
Buildings and Plant	84,540	84,540	78,114	(6,426)
Inspections	345,612	350,874	353,352	2,478
Other	751,430	645,315	669,613	24,298
Debt Service				
Principal Retirement	13,300	13,300	13,318	18
Interest and Fiscal Charges	3,000	3,000	4,198	1,198
Total Expenditures	<u>2,401,434</u>	<u>2,307,837</u>	<u>2,323,996</u>	<u>16,159</u>
EXCESS OF REVENUES OVER EXPENDITURES	44,600	44,600	409,377	364,777
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	1,454	1,454
Transfers Out	(29,600)	(29,600)	(380,365)	(350,765)
Total Other Financing Sources (Uses)	<u>(29,600)</u>	<u>(29,600)</u>	<u>(378,911)</u>	<u>(349,311)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 15,000</u>	<u>\$ 15,000</u>	30,466	<u>\$ 15,466</u>
Fund Balance - Beginning of Year			<u>3,496,983</u>	
FUND BALANCE - END OF YEAR			<u>\$ 3,527,449</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF BRAINERD, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
PUBLIC SAFETY FUND
YEAR ENDED DECEMBER 31, 2017**

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 660,000	\$ 660,000	\$ 660,072	\$ 72
Intergovernmental	3,274,308	3,336,598	3,187,426	(149,172)
Charges for Services	653,802	653,802	659,020	5,218
Fines and Forfeits	155,000	155,000	175,813	20,813
Interest	500	500	-	(500)
Contributions and Donations	-	-	7,941	7,941
Miscellaneous	74,700	74,700	92,967	18,267
Total Revenues	<u>4,818,310</u>	<u>4,880,600</u>	<u>4,783,239</u>	<u>(97,361)</u>
EXPENDITURES				
Current				
Public Safety				
Police	3,506,788	3,564,391	3,468,016	(96,375)
Fire	742,996	747,683	737,264	(10,419)
Fire Retirement Association	259,868	259,868	254,293	(5,575)
Civil Defense	6,000	6,000	2,751	(3,249)
Animal Control	69,000	69,000	58,191	(10,809)
Capital Outlay	-	-	38,870	38,870
Debt Service				
Principal Retirement	23,745	23,745	17,650	(6,095)
Interest and Fiscal Charges	6,000	6,000	5,351	(649)
Total Expenditures	<u>4,614,397</u>	<u>4,676,687</u>	<u>4,582,386</u>	<u>(94,301)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	203,913	203,913	200,853	(3,060)
OTHER FINANCING SOURCES (USES)				
Issuance of Capital Leases	-	-	38,870	38,870
Transfers Out	(203,913)	(203,913)	(246,713)	(42,800)
Total Other Financing Sources (Uses)	<u>(203,913)</u>	<u>(203,913)</u>	<u>(207,843)</u>	<u>(3,930)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	(6,990)	<u>\$ (6,990)</u>
Fund Balance - Beginning of Year			<u>8,568</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,578</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF BRAINERD, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
PARK AND RECREATION FUND
YEAR ENDED DECEMBER 31, 2017**

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 35,000	\$ 35,000	\$ 35,010	\$ 10
Intergovernmental	699,130	708,835	713,786	4,951
Charges for Services	199,000	199,000	191,735	(7,265)
Contributions and Donations	-	-	5,069	5,069
Miscellaneous	62,100	62,100	71,269	9,169
Total Revenues	<u>995,230</u>	<u>1,004,935</u>	<u>1,016,869</u>	<u>11,934</u>
EXPENDITURES				
Current				
Culture and Recreation	980,127	989,832	1,022,261	32,429
Capital Outlay	-	-	52,812	52,812
Debt Service				
Principal Retirement	11,103	11,103	10,024	(1,079)
Interest and Fiscal Charges	4,000	4,000	4,784	784
Total Expenditures	<u>995,230</u>	<u>1,004,935</u>	<u>1,089,881</u>	<u>84,946</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	-	-	(73,012)	(73,012)
OTHER FINANCING SOURCES (USES)				
Issuance of Capital Leases	-	-	52,812	52,812
Transfers In	-	-	21,965	21,965
Transfers Out	-	-	(1,800)	(1,800)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>72,977</u>	<u>72,977</u>
NET CHANGE IN FUND BALANCE				
	<u>\$ -</u>	<u>\$ -</u>	<u>(35)</u>	<u>\$ (35)</u>
Fund Balance - Beginning of Year			<u>695</u>	
FUND BALANCE - END OF YEAR			<u>\$ 660</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF BRAINERD, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
STREET FUND
YEAR ENDED DECEMBER 31, 2017**

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 40,000	\$ 40,000	\$ 40,009	\$ 9
Intergovernmental	647,103	653,705	576,400	(77,305)
Special Assessments	10,800	10,800	10,899	99
Miscellaneous	260,000	260,000	270,144	10,144
Total Revenues	<u>957,903</u>	<u>964,505</u>	<u>897,452</u>	<u>(67,053)</u>
EXPENDITURES				
Current				
Public Works				
Streets and Alleys	813,624	820,226	783,116	(37,110)
Ice and Snow Removal	85,000	85,000	66,940	(18,060)
Traffic Control	60,479	60,479	49,459	(11,020)
Debt Service				
Principal Retirement	7,500	7,500	7,507	7
Interest and Fiscal Charges	1,300	1,300	1,276	(24)
Total Expenditures	<u>967,903</u>	<u>974,505</u>	<u>908,298</u>	<u>(66,207)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(10,000)	(10,000)	(10,846)	(846)
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>10,000</u>	<u>10,000</u>	<u>10,844</u>	<u>844</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	(2)	<u>\$ (2)</u>
Fund Balance - Beginning of Year			<u>568</u>	
FUND BALANCE - END OF YEAR			<u>\$ 566</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF BRAINERD, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT AUTHORITY FUND
YEAR ENDED DECEMBER 31, 2017**

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 118,980	\$ 118,980	\$ 118,913	\$ (67)
Interest	250	250	188	(62)
Total Revenues	<u>119,230</u>	<u>119,230</u>	<u>119,101</u>	<u>(129)</u>
EXPENDITURES				
Current				
Economic Development	<u>113,517</u>	<u>114,072</u>	<u>110,069</u>	<u>(4,003)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 5,713</u>	<u>\$ 5,158</u>	9,032	<u>\$ 3,874</u>
Fund Balance - Beginning of Year			<u>17,934</u>	
FUND BALANCE - END OF YEAR			<u>\$ 26,966</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF BRAINERD, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2017**

NOTE 1 LEGAL COMPLIANCE - BUDGETS

The General, Public Safety, Park and Recreation, Street, and Economic Development Authority Fund budgets are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Any budgetary 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

The School Patrol Fund was established to account for donations from individuals and service organizations that are restricted 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, funds provided to the City from the County to develop waste reduction, recycling, and solid waste management programs, that are restricted for the City's recycling program.

CITY PARKING LOTS FUND

The City Parking Lots Fund accounts for all charges for services from parking lot rentals which are committed to maintaining the City parking lots.

TRANSIT FUND

The Transit Fund accounts for government grant revenues which are restricted for the expenditures of the City's dial-a-ride transportation system operation.

WATER AND SEWER AVAILABILITY CHARGES FUND

The Water and Sewer Availability Charges Fund was created by Ordinance 1147, which accounts for charges for services which are committed 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.

EMPLOYEE WELLNESS PROGRAM

The Employee Wellness Program Fund was established to account for restricted grant money received for an employee wellness program. The program is designed to create, promote, develop, and maintain healthy lifestyles that will encourage habits that can be incorporated into employee's daily lives.

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS (CONTINUED)

PERMANENT IMPROVEMENT FUND

The Permanent Improvement Fund was established by authority of the City Charter to account for property tax levy which is committed for paying the portion of the cost of improving streets and alleys assessed upon the City.

MAYOR'S CONTINGENCY FUND

The Mayor's Contingency Fund was established by authority of the City Charter to account for local government aid which is committed 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

The Hydrant Rental and Electric Current Fund was established by authority of the City Charter to account for the property tax levy which is committed 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.

DRUG AND DRIVING UNDER THE INFLUENCE (DUI) FORFEITURE FUND

The Drug and DUI Forfeiture Fund is maintained according to federal forfeited property regulations and is used to account for restricted monies allocated to the City and spent according to their specific 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.

TAX INCREMENT FINANCING DISTRICT FUND

The Tax Increment Financing District Fund was established to account for tax increment revenues which are restricted for expenditures related to the following tax increment projects:

Taco Johns
Jimmy Johns

Art Space
Brainerd Oaks

East Brainerd Mall
Timberland Townhome

LOCAL OPTION SALES TAX

The Local Option Sales Tax Fund accounts for the collection of the 0.5% local sales tax authorized by the State of Minnesota and voters of the City of Brainerd which are restricted for the construction costs of water and wastewater treatment plants, infrastructure, and improvements, as well as for trail improvements for the cities of Brainerd and Baxter, Minnesota.

**CITY OF BRAINERD, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	SPECIAL REVENUE FUNDS				
	SCHOOL PATROL	RECYCLING	CITY PARKING LOTS	TRANSIT	WATER AND SEWER AVAILABILITY CHARGES
ASSETS					
Cash and Investments	\$ 17,905	\$ 3,236	\$ 13,989	\$ 285,769	\$ 567,142
Receivables					
Taxes - Delinquent	-	-	-	-	-
Accounts	-	-	-	15,449	-
Tax Prepayments	-	-	-	-	-
Due from Other Governments	-	-	-	206,834	-
Due from Component Unit	-	-	-	-	50,471
Total Assets	\$ 17,905	\$ 3,236	\$ 13,989	\$ 508,052	\$ 617,613
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ 143,657	\$ -
Accrued Liabilities	-	-	-	1,421	-
Due to Other Funds	-	-	-	-	-
Due to Other Governments	-	-	-	34,850	-
Due to Component Units	-	-	36	-	-
Total Liabilities	-	-	36	179,928	-
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Taxes	-	-	-	-	-
Property Taxes Levied for Subsequent Year	-	-	-	-	-
Unavailable Revenue - Grants	-	-	-	207,456	-
Total Deferred Inflows of Resources	-	-	-	207,456	-
FUND BALANCE					
Restricted	17,905	3,236	-	120,668	-
Committed	-	-	13,953	-	617,613
Total Fund Balance	17,905	3,236	13,953	120,668	617,613
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 17,905	\$ 3,236	\$ 13,989	\$ 508,052	\$ 617,613

SPECIAL REVENUE FUNDS

EMPLOYEE WELLNESS PROGRAM	PERMANENT IMPROVEMENT	MAYOR'S CONTIN- GENCY	HYDRANT RENTAL AND ELECTRIC CURRENT	DRUG & DUI FORFEITURE	TAX INCREMENT FINANCING DISTRICTS	LOCAL OPTION SALES TAX	TOTALS
\$ 23,034	\$ -	\$ -	\$ -	\$ 53,666	\$ 157,807	\$ 4,710	\$ 1,127,258
-	18,704	-	9,352	-	-	-	28,056
-	-	-	-	-	-	3,816	19,265
-	14,834	-	7,417	-	-	-	22,251
6,255	-	-	-	-	-	89,927	303,016
-	-	-	55,104	-	-	-	105,575
<u>\$ 29,289</u>	<u>\$ 33,538</u>	<u>\$ -</u>	<u>\$ 71,873</u>	<u>\$ 53,666</u>	<u>\$ 157,807</u>	<u>\$ 98,453</u>	<u>\$ 1,605,421</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 143,657
-	-	-	-	-	-	-	1,421
-	-	-	55,104	-	-	-	55,104
-	-	-	-	10,609	-	-	45,459
-	-	-	-	-	-	98,453	98,489
-	-	-	55,104	10,609	-	98,453	344,130
-	12,648	-	6,324	-	-	-	18,972
-	14,834	-	7,417	-	-	-	22,251
-	-	-	-	-	-	-	207,456
-	27,482	-	13,741	-	-	-	248,679
29,289	-	-	-	43,057	157,807	-	371,962
-	6,056	-	3,028	-	-	-	640,650
<u>29,289</u>	<u>6,056</u>	<u>-</u>	<u>3,028</u>	<u>43,057</u>	<u>157,807</u>	<u>-</u>	<u>1,012,612</u>
<u>\$ 29,289</u>	<u>\$ 33,538</u>	<u>\$ -</u>	<u>\$ 71,873</u>	<u>\$ 53,666</u>	<u>\$ 157,807</u>	<u>\$ 98,453</u>	<u>\$ 1,605,421</u>

**CITY OF BRAINERD, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2017**

	SPECIAL REVENUE FUNDS				
	SCHOOL PATROL	RECYCLING	CITY PARKING LOTS	TRANSIT	WATER & SEWER AVAILABILITY CHARGES
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales Tax	-	-	-	-	-
Tax Increments	-	-	-	-	-
Intergovernmental	-	61,600	-	869,943	-
Charges for Services	-	455	26,470	148,557	210,971
Fines and Forfeits	-	-	-	-	-
Interest	97	109	85	1,900	2,770
Contributions and Donations	13,800	-	-	-	-
Miscellaneous	-	-	-	5,471	-
Total Revenues	<u>13,897</u>	<u>62,164</u>	<u>26,555</u>	<u>1,025,871</u>	<u>213,741</u>
EXPENDITURES					
Current					
General Government	-	-	-	-	-
Public Safety	11,317	-	-	-	-
Public Works	-	63,627	14,186	1,007,469	-
Economic Development	-	-	-	-	-
Capital Outlay	-	-	-	158,194	-
Total Expenditures	<u>11,317</u>	<u>63,627</u>	<u>14,186</u>	<u>1,165,663</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,580	(1,463)	12,369	(139,792)	213,741
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	-	-	-	5,704	-
Transfers Out	-	-	(12,749)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(12,749)</u>	<u>5,704</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	2,580	(1,463)	(380)	(134,088)	213,741
Fund Balance (Deficit) - Beginning of Year	<u>15,325</u>	<u>4,699</u>	<u>14,333</u>	<u>254,756</u>	<u>403,872</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 17,905</u>	<u>\$ 3,236</u>	<u>\$ 13,953</u>	<u>\$ 120,668</u>	<u>\$ 617,613</u>

SPECIAL REVENUE FUNDS

EMPLOYEE WELLNESS PROGRAM	PERMANENT IMPROVEMENT	MAYOR'S CONTINGENCY	HYDRANT RENTAL & ELECTRIC CURRENT	DUI & DRUG FORFEITURE	TAX INCREMENT FINANCING DISTRICTS	LOCAL SALES TAX OPTION	TOTALS
\$ -	\$ 332,218	\$ -	\$ 166,105	\$ -	\$ -	\$ -	\$ 498,323
-	-	-	-	-	-	1,004,910	1,004,910
-	-	-	-	-	216,989	-	216,989
27,030	-	2,500	-	-	-	-	961,073
-	-	-	-	-	-	-	386,453
-	-	-	-	12,608	-	-	12,608
88	-	-	-	294	584	-	5,927
-	-	-	-	-	-	-	13,800
-	-	-	-	1,489	-	-	6,960
<u>27,118</u>	<u>332,218</u>	<u>2,500</u>	<u>166,105</u>	<u>14,391</u>	<u>217,573</u>	<u>1,004,910</u>	<u>3,107,043</u>
9,743	-	2,716	-	-	-	-	12,459
-	-	-	-	2,853	-	-	14,170
-	-	-	165,548	-	-	-	1,250,830
-	-	-	-	-	215,236	1,004,910	1,220,146
-	-	-	-	5,270	-	-	163,464
<u>9,743</u>	<u>-</u>	<u>2,716</u>	<u>165,548</u>	<u>8,123</u>	<u>215,236</u>	<u>1,004,910</u>	<u>2,661,069</u>
17,375	332,218	(216)	557	6,268	2,337	-	445,974
-	-	-	-	-	-	-	5,704
-	(331,103)	(1,454)	-	-	-	-	(345,306)
-	(331,103)	(1,454)	-	-	-	-	(339,602)
17,375	1,115	(1,670)	557	6,268	2,337	-	106,372
11,914	4,941	1,670	2,471	36,789	155,470	-	906,240
<u>\$ 29,289</u>	<u>\$ 6,056</u>	<u>\$ -</u>	<u>\$ 3,028</u>	<u>\$ 43,057</u>	<u>\$ 157,807</u>	<u>\$ -</u>	<u>\$ 1,012,612</u>

CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
RECYCLING FUND
YEAR ENDED DECEMBER 31, 2017

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES			
Intergovernmental	\$ 61,600	\$ 61,600	\$ -
Charges for Services	600	455	(145)
Interest	-	109	109
Total Revenues	62,200	62,164	(36)
EXPENDITURES			
Current			
Public Works	64,060	63,627	(433)
NET CHANGE IN FUND BALANCE	\$ (1,860)	(1,463)	\$ 397
Fund Balance - Beginning of Year		4,699	
FUND BALANCE - END OF YEAR		\$ 3,236	

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CITY PARKING LOTS FUND
YEAR ENDED DECEMBER 31, 2017**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Charges for Services	\$ 22,500	\$ 26,470	\$ 3,970
Interest	-	85	85
Total Revenues	<u>22,500</u>	<u>26,555</u>	<u>4,055</u>
EXPENDITURES			
Current			
Public Works	<u>18,523</u>	<u>14,186</u>	<u>(4,337)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,977	12,369	8,392
OTHER FINANCING USES			
Transfers Out	<u>(10,000)</u>	<u>(12,749)</u>	<u>(2,749)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (6,023)</u>	(380)	<u>\$ 5,643</u>
Fund Balance - Beginning of Year		<u>14,333</u>	
FUND BALANCE - END OF YEAR		<u>\$ 13,953</u>	

CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
TRANSIT FUND
YEAR ENDED DECEMBER 31, 2017

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES				
Intergovernmental	\$ 966,700	\$ 966,700	\$ 869,943	\$ (96,757)
Charges for Services	152,503	152,503	148,557	(3,946)
Interest	-	-	1,900	1,900
Miscellaneous	-	-	5,471	5,471
Total Revenues	<u>1,119,203</u>	<u>1,119,203</u>	<u>1,025,871</u>	<u>(93,332)</u>
EXPENDITURES				
Current				
Public Works	976,655	976,655	1,007,469	30,814
Capital Outlay	85,000	85,000	158,194	73,194
Total Expenditures	<u>1,061,655</u>	<u>1,061,655</u>	<u>1,165,663</u>	<u>104,008</u>
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	57,548	57,548	(139,792)	(197,340)
OTHER FINANCING SOURCES				
Sale of Capital Assets	-	-	5,704	5,704
NET CHANGE IN FUND BALANCE	<u>\$ 57,548</u>	<u>\$ 57,548</u>	<u>(134,088)</u>	<u>\$ (191,636)</u>
Fund Balance - Beginning of Year			<u>254,756</u>	
FUND BALANCE - END OF YEAR			<u>\$ 120,668</u>	

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PERMANENT IMPROVEMENT FUND
YEAR ENDED DECEMBER 31, 2017**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Taxes	\$ 333,170	\$ 332,218	\$ (952)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	333,170	332,218	(952)
OTHER FINANCING USES			
Transfers Out	<u>(333,170)</u>	<u>(331,103)</u>	<u>2,067</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	1,115	<u>\$ 1,115</u>
Fund Balance - Beginning of Year		<u>4,941</u>	
FUND BALANCE - END OF YEAR		<u>\$ 6,056</u>	

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAYOR'S CONTINGENCY FUND
YEAR ENDED DECEMBER 31, 2017**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Intergovernmental	\$ 2,500	\$ 2,500	\$ -
EXPENDITURES			
Current			
General Government			
Mayor and Council	<u>2,500</u>	<u>2,716</u>	<u>216</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(216)	(216)
OTHER FINANCING SOURCES			
Transfer Out	<u>-</u>	<u>(1,454)</u>	<u>(1,454)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ -</u></u>	<u><u>(1,670)</u></u>	<u><u>\$ (1,670)</u></u>
Fund Balance - Beginning of Year		<u>1,670</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, 2017**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES			
Taxes	\$ 166,585	\$ 166,105	\$ (480)
EXPENDITURES			
Current			
Public Works	<u>166,585</u>	<u>165,548</u>	<u>(1,037)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	557	<u>\$ 557</u>
Fund Balance - Beginning of Year		<u>2,471</u>	
FUND BALANCE - END OF YEAR		<u>\$ 3,028</u>	

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COMPONENT UNIT FINANCIAL STATEMENTS

**CITY OF BRAINERD, MINNESOTA
BRAINERD LAKES REGIONAL AIRPORT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Balance Sheet	Conversion to Full Accrual	Statement of Net Position
ASSETS			
Cash and Investments	\$ 1,275,646	\$ -	\$ 1,275,646
Receivables			
Accounts	50,157	-	50,157
Due from Other Governments	942,243	-	942,243
Capital Assets			
Land and Construction In Progress	-	2,406,371	2,406,371
Other Capital Assets, Net of Depreciation	-	27,704,363	27,704,363
Total Assets	\$ 2,268,046	30,110,734	32,378,780
DEFERRED INFLOWS OF RESOURCES			
Pension Related	\$ -	33,675	33,675
LIABILITIES			
Current Liabilities			
Accounts Payable	255,899	-	255,899
Accrued Liabilities	9,131	-	9,131
Contracts Payable	42,431	-	42,431
Due to Primary Government	50,681	-	50,681
Long-Term Liabilities			
Net Pension Liability	-	138,067	138,067
Other Postemployment Benefits	-	3,135	3,135
Due within One Year	-	56,354	56,354
Due in More than One Year	-	138,571	138,571
Total Liabilities	358,142	336,127	694,269
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Grants	191,059	(191,059)	-
Pension Related	-	32,186	32,186
Total Deferred Inflows of Resources	191,059	(158,873)	32,186
FUND BALANCE/NET POSITION			
Fund Balance			
Assigned	1,718,845	(1,718,845)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 2,268,046		
Net Position			
Net Investment in Capital Assets		30,038,657	30,038,657
Unrestricted		1,647,343	1,647,343
Total Net Position		\$ 31,686,000	\$ 31,686,000

**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, 2017**

	Statement of Revenues, Expenditures and Changes in Fund Balance	Conversion to Full Accrual	Statement of Activities
	<u> </u>	<u> </u>	<u> </u>
Expenditures/Expenses	\$ 2,589,585	\$ 2,598,844	\$ 5,188,429
Program Revenues			
Charges for Services	686,501	-	686,501
Operating Grants	453,148	-	453,148
Capital Grants	1,432,418	(2,612)	1,429,806
Total Program Revenues	<u>2,572,067</u>	<u>(2,612)</u>	<u>2,569,455</u>
Net Program Revenue	(17,518)	(2,601,456)	(2,618,974)
General Revenues			
Interest	9,786	-	9,786
Sale of Capital Assets	15,800	-	15,800
Total General Revenues	<u>25,586</u>	<u>-</u>	<u>25,586</u>
Change in Net Position	8,068	(2,601,456)	(2,593,388)
Fund Balance/Net Position			
Beginning of Year	1,710,777	32,568,611	34,279,388
End of Year	<u>\$ 1,718,845</u>	<u>\$ 29,967,155</u>	<u>\$ 31,686,000</u>

**CITY OF BRAINERD, MINNESOTA
 BRAINERD LAKES REGIONAL AIRPORT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 YEAR ENDED DECEMBER 31, 2017**

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
Revenues				
Intergovernmental	\$ 347,517	\$ 347,517	\$ 1,885,566	\$ 1,538,049
Charges for Services	583,635	583,635	676,604	92,969
Interest	1,500	1,500	9,786	8,286
Miscellaneous	5,000	5,000	9,897	4,897
Total Revenues	<u>937,652</u>	<u>937,652</u>	<u>2,581,853</u>	<u>1,644,201</u>
Expenditures				
Current				
Personal Services	529,660	529,660	516,851	(12,809)
Supplies	145,953	145,953	121,183	(24,770)
Other Services and Charges	262,039	262,039	235,584	(26,455)
Capital Outlay	-	-	1,715,967	1,715,967
Total Expenditures	<u>937,652</u>	<u>937,652</u>	<u>2,589,585</u>	<u>1,651,933</u>
Excess (Deficiency) of Revenues Over Expenditures	-	-	(7,732)	(7,732)
General Revenues				
Sale of Capital Assets	-	-	15,800	15,800
Net Increase (Decrease) in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	8,068	<u>\$ 8,068</u>
Fund Balance				
Beginning of Year			<u>1,710,777</u>	
End of Year			<u>\$ 1,718,845</u>	

**CITY OF BRAINERD, MINNESOTA
BRAINERD PUBLIC LIBRARY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Balance Sheet	Conversion to Full Accrual	Statement of Net Position
ASSETS			
Cash and Investments	\$ 224,628	\$ -	\$ 224,628
Receivables			
Taxes - Delinquent	8,090	-	8,090
Tax Prepayments	6,416	-	6,416
Capital Assets			
Land and Construction In Progress	-	9,041	9,041
Other Capital Assets, Net of Depreciation	-	347,574	347,574
Total Assets	\$ 239,134	356,615	595,749
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 2,233	-	2,233
Due to Component Unit	1,429	-	1,429
Total Liabilities	3,662	-	3,662
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	5,473	(5,473)	-
Property Taxes Levied for Subsequent Year	6,416	-	6,416
Total Deferred Inflows of Resources	11,889	(5,473)	6,416
FUND BALANCE/NET POSITION			
Fund Balances			
Assigned	223,583	(223,583)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 239,134		
Net Position			
Net Investment in Capital Assets		356,615	356,615
Unrestricted		229,056	229,056
Total Net Position		\$ 585,671	\$ 585,671

**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, 2017**

	Statement of Revenues, Expenditures and Changes in Fund Balance	Conversion to Full Accrual	Statement of Activities
	<u> </u>	<u> </u>	<u> </u>
Expenditures/Expenses	\$ 186,809	\$ 47,406	\$ 234,215
Program Revenues			
Operating Grants	<u>57,013</u>	<u>-</u>	<u>57,013</u>
Net Program Expense	(129,796)	(47,406)	(177,202)
General Revenues			
Property Taxes Levied for General Purposes	143,735	(773)	142,962
Interest	1,291	-	1,291
Miscellaneous	<u>4,844</u>	<u>-</u>	<u>4,844</u>
Total General Revenues	<u>149,870</u>	<u>(773)</u>	<u>149,097</u>
Change in Net Position	20,074	(48,179)	(28,105)
Fund Balance/Net Position			
Beginning of Year	<u>203,509</u>	<u>410,267</u>	<u>613,776</u>
End of Year	<u>\$ 223,583</u>	<u>\$ 362,088</u>	<u>\$ 585,671</u>

**CITY OF BRAINERD, MINNESOTA
 BRAINERD PUBLIC LIBRARY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 YEAR ENDED DECEMBER 31, 2017**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
Revenues			
Taxes	\$ 146,820	\$ 143,735	\$ (3,085)
Interest	-	1,291	1,291
Miscellaneous	-	61,857	61,857
Total Revenues	<u>146,820</u>	<u>206,883</u>	<u>60,063</u>
Expenditures			
Supplies	13,657	10,817	(2,840)
Other Services and Charges	127,163	175,992	48,829
Capital Outlay	6,000	-	(6,000)
Total Expenditures	<u>146,820</u>	<u>186,809</u>	<u>39,989</u>
Net Increase (Decrease) in Fund Balance	<u>\$ -</u>	20,074	<u>\$ 20,074</u>
Fund Balance			
Beginning of Year		<u>203,509</u>	
End of Year		<u>\$ 223,583</u>	

STATISTICAL INFORMATION SECTION (UNAUDITED)

STATISTICAL INFORMATION SECTION (UNAUDITED)

This part of the City of Brainerd's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

CONTENTS

Financial Trends

The financial trends schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

The revenue capacity schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity

The debt capacity schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

The demographic and economic information schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

The operating information schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive financial reports for the relevant year.

CITY OF BRAINERD, MINNESOTA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Governmental Activities			
Net Investment in Capital Assets	\$ 27,389,587	\$ 28,593,652	\$ 31,154,173
Restricted for Net Pension Asset	-	-	-
Restricted for Debt Service	5,319,110	5,608,739	5,607,975
Restricted for Economic Development	-	-	-
Unrestricted	<u>5,054,122</u>	<u>5,858,504</u>	<u>5,053,510</u>
Total Governmental Activities Net Position	37,762,819	40,060,895	41,815,658
Business-Type Activities			
Net Investment in Capital Assets	1,204,525	-	-
Unrestricted	<u>(192,806)</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities Net Position	<u>1,011,719</u>	<u>-</u>	<u>-</u>
Primary Government			
Net Investment in Capital Assets	27,559,112	28,593,652	31,154,173
Restricted for Net Pension Asset	-	-	-
Restricted for Debt Service	5,319,110	5,608,739	5,607,975
Restricted for Economic Development	-	-	-
Unrestricted	<u>5,896,316</u>	<u>5,858,504</u>	<u>5,053,510</u>
Total Primary Government Net Position	<u>\$ 38,774,538</u>	<u>\$ 40,060,895</u>	<u>\$ 41,815,658</u>

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 32,803,075	\$ 38,840,279	\$ 39,957,398	\$ 40,601,443	\$ 29,274,442	\$ 29,077,014	\$ 31,299,024
-	-	-	-	-	-	603,254
8,067,819	5,772,916	5,316,231	5,197,989	5,186,164	4,694,841	3,837,524
2,017,875	1,744,361	2,529,669	2,374,348	2,497,112	2,442,127	2,453,635
830,121	4,528,929	2,636,006	3,772,372	276,847	149,597	958,153
<u>43,718,890</u>	<u>50,886,485</u>	<u>50,439,304</u>	<u>51,946,152</u>	<u>37,234,565</u>	<u>36,363,579</u>	<u>39,151,590</u>
-	-	-	-	12,943,309	12,691,158	12,867,762
-	-	-	-	(759,538)	(392,022)	162,523
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,183,771</u>	<u>12,299,136</u>	<u>13,030,285</u>
32,803,075	38,840,279	39,957,398	40,601,443	42,217,751	41,768,172	44,166,786
-	-	-	-	-	-	603,254
8,067,819	5,772,916	5,316,231	5,197,989	5,186,164	4,694,841	3,837,524
2,017,875	1,744,361	2,529,669	2,374,348	2,497,112	2,442,127	2,453,635
830,121	4,528,929	2,636,006	3,772,372	(482,691)	(242,425)	1,120,676
<u>\$ 43,718,890</u>	<u>\$ 50,886,485</u>	<u>\$ 50,439,304</u>	<u>\$ 51,946,152</u>	<u>\$ 49,418,336</u>	<u>\$ 48,662,715</u>	<u>\$ 52,181,875</u>

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Expenses			
Governmental Activities:			
General Government	\$ 2,471,623	\$ 2,615,361	\$ 2,379,213
Public Safety	5,271,423	4,854,810	4,580,987
Public Works	4,993,886	4,634,327	3,904,216
Culture and Recreation	1,153,647	1,121,263	1,037,305
Economic Development	2,499,174	1,824,784	1,701,076
Interest on Long-Term Debt	610,051	598,163	618,993
Total Governmental Activities Expenses	<u>16,999,804</u>	<u>15,648,708</u>	<u>14,221,790</u>
Business-Type Activities:			
Arena	517,581	332,995	-
Sanitary Sewer	-	-	-
Storm Sewer	-	-	-
Total Business-Type Activities	<u>517,581</u>	<u>332,995</u>	<u>-</u>
Total Primary Government Expenses	<u>\$ 17,517,385</u>	<u>\$ 15,981,703</u>	<u>\$ 14,221,790</u>
Program Revenues			
Governmental Activities			
Charges for Services			
General Government	\$ 549,543	\$ 688,459	\$ 887,143
Public Safety	1,140,212	1,133,519	1,078,047
Public Works	1,492,548	1,286,307	1,139,507
Culture and Recreation	245,674	242,391	256,659
Economic Development	131,228	379,826	521,537
Operating Grants and Contributions	1,977,424	1,134,667	1,102,604
Capital Grants and Contributions	1,739,627	2,222,836	2,433,687
Total Governmental Activities Program Revenues	<u>7,276,256</u>	<u>7,088,005</u>	<u>7,419,184</u>
Business-Type Activities			
Charges for Services			
Arena	394,193	283,190	-
Sanitary Sewer	-	-	-
Storm Sewer	-	-	-
Operating Grants and Contributions	141,060	27,146	-
Capital Grants and Contributions	-	-	-
Total Business-Type Activities Program Revenues	<u>535,253</u>	<u>310,336</u>	<u>-</u>
Total Primary Government Program Revenues	<u>\$ 7,811,509</u>	<u>\$ 7,398,341</u>	<u>\$ 7,419,184</u>
Net (Expense)/Revenue			
Governmental Activities	\$ (9,723,548)	\$ (8,560,703)	\$ (6,802,606)
Business-Type Activities	17,672	(22,659)	-
Total Primary Government Net Expense	<u>\$ (9,705,876)</u>	<u>\$ (8,583,362)</u>	<u>\$ (6,802,606)</u>

	2011	2012	2013	2014	2015	2016	2017
\$	2,231,366	\$ 2,156,504	\$ 3,046,396	\$ 2,450,864	\$ 2,264,850	\$ 2,294,344	\$ 2,402,941
	4,507,891	4,787,874	5,054,814	4,911,805	5,094,506	5,988,001	5,092,682
	4,429,406	4,997,160	4,843,435	4,983,553	3,654,249	4,817,410	4,013,059
	911,159	907,168	1,015,966	961,494	1,069,824	1,163,323	1,171,905
	2,245,635	1,816,490	1,491,673	1,675,233	1,715,635	1,343,868	2,292,834
	540,817	468,208	528,521	365,052	340,895	221,979	135,042
	<u>14,866,274</u>	<u>15,133,404</u>	<u>15,980,805</u>	<u>15,348,001</u>	<u>14,139,959</u>	<u>15,828,925</u>	<u>15,108,463</u>
	-	-	-	-	-	-	-
	-	-	-	-	523,043	902,801	641,506
	-	-	-	-	381,269	327,621	391,349
	-	-	-	-	904,312	1,230,422	1,032,855
\$	<u>14,866,274</u>	<u>15,133,404</u>	<u>15,980,805</u>	<u>15,348,001</u>	<u>15,044,271</u>	<u>17,059,347</u>	<u>16,141,318</u>
\$	874,597	\$ 1,005,716	\$ 844,051	\$ 1,014,998	\$ 941,998	\$ 998,828	\$ 998,024
	993,349	880,882	1,008,956	978,321	947,757	969,118	923,876
	1,102,729	1,128,528	1,069,177	1,063,614	595,306	498,889	706,796
	262,772	237,939	237,278	237,308	262,425	268,084	254,272
	444,809	419,810	430,499	732,859	534,502	222,191	814,546
	1,124,436	1,160,026	1,269,439	1,887,902	1,633,211	1,359,201	1,626,126
	3,092,349	8,673,123	1,817,863	1,056,045	790,375	698,891	1,960,551
	<u>7,895,041</u>	<u>13,506,024</u>	<u>6,677,263</u>	<u>6,971,047</u>	<u>5,705,574</u>	<u>5,015,202</u>	<u>7,284,191</u>
	-	-	-	-	-	-	-
	-	-	-	-	392,175	458,681	567,740
	-	-	-	-	310,030	322,489	356,351
	-	-	-	-	-	-	-
	-	-	-	-	-	-	584,488
	-	-	-	-	702,205	781,170	1,508,579
\$	<u>7,895,041</u>	<u>13,506,024</u>	<u>6,677,263</u>	<u>6,971,047</u>	<u>6,407,779</u>	<u>5,796,372</u>	<u>8,792,770</u>
\$	(6,971,233)	\$ (1,627,380)	\$ (9,303,542)	\$ (8,076,954)	\$ (8,434,385)	\$ (10,813,723)	\$ (7,824,272)
	-	-	-	-	(202,107)	(449,252)	475,724
\$	<u>(6,971,233)</u>	<u>(1,627,380)</u>	<u>(9,303,542)</u>	<u>(8,076,954)</u>	<u>(8,636,492)</u>	<u>(11,262,975)</u>	<u>(7,348,548)</u>

CITY OF BRAINERD, MINNESOTA
CHANGES IN NET POSITION (CONTINUED)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Revenues and Other Changes in Net Position			
Governmental Activities			
Property Taxes	\$ 3,913,016	\$ 4,093,299	\$ 3,638,501
Sales Taxes	804,396	854,392	815,628
Franchise Fees	123,761	118,212	121,645
Unrestricted Grants and Contributions	4,025,076	4,298,468	3,739,617
Unrestricted Investment Earnings	193,050	53,644	34,699
Gain (Loss) on Sale of Capital Assets	-	244,345	-
Miscellaneous	183,318	207,345	207,279
Transfers	-	989,074	-
Total Governmental Activities	<u>9,242,617</u>	<u>10,858,779</u>	<u>8,557,369</u>
Business-Type Activities			
Unrestricted Grants and Contributions	-	-	-
Unrestricted Investment Earnings	-	14	-
Miscellaneous	-	-	-
Transfers	-	(989,074)	-
Total Business-Type Activities	<u>-</u>	<u>(989,060)</u>	<u>-</u>
Total Primary Government	<u>\$ 9,242,617</u>	<u>\$ 9,869,719</u>	<u>\$ 8,557,369</u>
Change In Net Position	\$ (463,259)	\$ 1,286,357	\$ 1,754,763
Net Position – Beginning of Year	39,237,797	38,774,538	40,060,895
Prior Period Restatement	-	-	-
Net Position – End of Year	<u>\$ 38,774,538</u>	<u>\$ 40,060,895</u>	<u>\$ 41,815,658</u>

2011	2012	2013	2014	2015	2016	2017
\$ 3,873,508	\$ 3,858,484	\$ 3,770,803	\$ 4,216,202	\$ 4,755,199	\$ 5,157,448	\$ 5,297,185
835,200	881,057	875,111	882,484	905,665	977,696	1,004,910
119,899	118,798	124,125	125,917	128,650	63,935	6,557
3,842,796	3,654,874	3,749,085	4,036,949	4,089,134	4,128,905	4,130,660
20,814	10,698	7,013	9,098	22,142	30,229	52,827
-	-	-	33,539	-	20,056	-
182,248	271,064	330,224	279,613	263,995	125,195	120,144
-	-	-	-	-	(61,000)	-
<u>8,874,465</u>	<u>8,794,975</u>	<u>8,856,361</u>	<u>9,583,802</u>	<u>10,164,785</u>	<u>10,442,464</u>	<u>10,612,283</u>
-	-	-	-	-	359	-
-	-	-	-	438	1,513	162
-	-	-	-	1,546	1,745	255,263
-	-	-	-	-	61,000	-
-	-	-	-	1,984	64,617	255,425
<u>\$ 8,874,465</u>	<u>\$ 8,794,975</u>	<u>\$ 8,856,361</u>	<u>\$ 9,583,802</u>	<u>\$ 10,166,769</u>	<u>\$ 10,507,081</u>	<u>\$ 10,867,708</u>
\$ 1,903,232	\$ 7,167,595	\$ (447,181)	\$ 1,506,848	\$ 1,530,277	\$ (755,621)	\$ 3,519,160
41,815,658	43,718,890	50,886,485	50,439,304	51,946,152	49,418,336	48,662,715
-	-	-	-	(4,058,093)	-	-
<u>\$ 43,718,890</u>	<u>\$ 50,886,485</u>	<u>\$ 50,439,304</u>	<u>\$ 51,946,152</u>	<u>\$ 49,418,336</u>	<u>\$ 48,662,715</u>	<u>\$ 52,181,875</u>

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

	December 31,		
	2008	2009	2010
General Fund			
Nonspendable	\$ -	\$ -	\$ -
Assigned	-	-	-
Unassigned	2,446,485	2,687,647	3,056,299
Total General Fund	<u>\$ 2,446,485</u>	<u>\$ 2,687,647</u>	<u>\$ 3,056,299</u>
 All other Governmental Funds			
Nonspendable:			
Special Revenue Funds	\$ -	\$ -	\$ -
Debt Service Fund	-	-	-
Capital Projects Fund	-	-	-
Restricted:			
Special Revenue Funds	-	1,448,433	1,512,909
Debt Service Fund	1,690,994	1,313,658	1,201,601
Committed to:			
Special Revenue Funds	-	656,798	455,596
Assigned (Designated 2007 - 2008):			
Special Revenue Funds	1,919,355	-	-
Capital Projects Fund	-	1,617,069	790,629
Unassigned			
(Unrestricted, Undesignated)	1,094,413	(104,871)	(191,288)
Total All Other Governmental Funds	<u>\$ 4,704,762</u>	<u>\$ 4,931,087</u>	<u>\$ 3,769,447</u>
 Total All Funds	 <u>\$ 7,151,247</u>	 <u>\$ 7,618,734</u>	 <u>\$ 6,825,746</u>

Note: The City implemented GASB 54 in fiscal year 2009, resulting in significant reclassification of the components of fund balance. Years prior to 2009 have not been restated.

December 31,

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 1,776	\$ 1,597	\$ 1,982	\$ 6,111	\$ 1,536	\$ 1,330	\$ 1,604
-	-	-	-	50,000	50,000	50,000
3,052,607	2,668,991	2,463,854	2,985,777	3,360,516	3,445,653	3,475,845
<u>\$ 3,054,383</u>	<u>\$ 2,670,588</u>	<u>\$ 2,465,836</u>	<u>\$ 2,991,888</u>	<u>\$ 3,412,052</u>	<u>\$ 3,496,983</u>	<u>\$ 3,527,449</u>
\$ 1,181	\$ 251	\$ 2,774	\$ 1,782	\$ 1,114	\$ 1,129	\$ 1,175
82,198	84,336	45,490	-	-	-	-
33	-	33	33	12	23	-
1,395,205	1,158,103	1,081,416	1,199,193	1,269,601	1,309,064	762,857
3,670,026	1,378,469	1,063,038	1,250,181	2,764,323	1,969,210	2,153,469
527,587	863,690	747,295	517,443	537,355	453,933	669,245
-	-	-	-	-	-	-
171,598	206,022	1,608,077	1,149,566	1,991,175	2,300,354	2,506,846
(292,748)	-	-	(83,442)	-	-	-
<u>\$ 5,555,080</u>	<u>\$ 3,690,871</u>	<u>\$ 4,548,123</u>	<u>\$ 4,034,756</u>	<u>\$ 6,563,580</u>	<u>\$ 6,033,713</u>	<u>\$ 6,093,592</u>
<u>\$ 8,609,463</u>	<u>\$ 6,361,459</u>	<u>\$ 7,013,959</u>	<u>\$ 7,026,644</u>	<u>\$ 9,975,632</u>	<u>\$ 9,530,696</u>	<u>\$ 9,621,041</u>

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

	Year Ended December 31,		
	2008	2009	2010
Revenues			
Property Taxes	\$ 3,527,011	\$ 3,674,598	\$ 3,860,723
Sales Tax	804,396	854,392	815,628
Tax Increments	446,216	474,311	482,935
Licenses and Permits	381,790	308,872	294,569
Intergovernmental	7,036,459	6,683,126	6,543,103
Charges for Services	1,905,332	1,854,763	1,772,443
Interest	191,019	53,214	34,306
Fines and Forfeits	289,517	250,737	212,913
Special Assessments	465,922	608,686	774,829
Miscellaneous	1,432,392	1,246,908	1,292,126
Total Revenues	<u>16,480,054</u>	<u>16,009,607</u>	<u>16,083,575</u>
Expenditures			
Current:			
General Government	2,332,630	2,198,122	2,277,650
Public Safety	4,781,598	4,323,401	4,312,696
Public Works	2,562,330	2,330,005	2,231,927
Culture and Recreation	1,053,278	1,022,135	981,865
Community Development	2,516,129	1,735,849	1,559,884
Capital Outlay	2,362,838	4,463,948	4,821,280
Debt Service			
Principal	1,597,517	1,766,128	1,772,206
Interest and Fiscal Charges	654,133	639,996	634,913
Total Expenditures	<u>17,860,453</u>	<u>18,479,584</u>	<u>18,592,421</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,380,399)	(2,469,977)	(2,508,846)
Other Financing Sources (Uses)			
Sale of Capital Assets	25,370	306,980	8,130
Issuance of Debt	-	2,715,000	1,670,000
Issuance of Capital Leases	-	-	47,331
Payment on Refunded Bonds	-	-	-
Discount on Bonds Issued	-	-	(9,603)
Premium on Bonds Issued	-	54,149	-
Transfer In	5,738,251	500,369	1,254,747
Transfer Out	(5,738,251)	(639,035)	(1,254,747)
Total Other Financing Sources (Uses)	<u>25,370</u>	<u>2,937,463</u>	<u>1,715,858</u>
Net Change in Fund Balances	<u>\$ (1,355,029)</u>	<u>\$ 467,486</u>	<u>\$ (792,988)</u>
Debt Service as a Percentage of Noncapital Expenditures	14.4%	16.2%	17.4%

Year Ended December 31,

	2011	2012	2013	2014	2015	2016	2017
\$	3,964,397	\$ 4,107,782	\$ 4,049,317	\$ 4,623,956	\$ 5,005,880	\$ 5,363,034	\$ 5,488,754
	835,200	881,057	875,111	882,484	905,665	977,969	1,004,910
	456,531	316,407	284,377	286,265	287,200	226,732	216,989
	283,062	275,222	255,160	330,372	400,253	360,537	391,487
	6,839,202	12,108,798	7,246,211	6,216,202	6,728,827	5,700,546	7,137,282
	1,692,398	1,590,595	1,606,900	1,681,143	1,220,305	1,181,962	1,271,003
	20,709	10,661	6,968	9,004	21,865	29,578	51,909
	211,232	197,846	181,578	180,746	195,222	191,361	188,421
	626,682	971,858	596,754	682,789	944,571	434,847	596,802
	1,293,617	1,320,889	1,252,939	1,318,159	1,198,165	1,082,678	1,314,426
	<u>16,223,030</u>	<u>21,781,115</u>	<u>16,355,315</u>	<u>16,211,120</u>	<u>16,907,953</u>	<u>15,549,244</u>	<u>17,661,983</u>
	2,132,815	2,112,439	2,081,271	2,264,729	2,357,566	2,173,160	2,318,939
	4,153,421	4,345,830	4,538,998	4,509,942	4,843,001	4,515,089	4,534,685
	2,324,158	2,111,718	2,268,579	2,348,643	1,970,102	2,067,492	2,150,345
	822,990	825,647	918,401	882,124	959,597	1,003,043	1,022,261
	1,569,492	1,681,619	1,439,868	1,289,423	1,428,954	1,340,976	2,451,092
	4,417,424	9,178,164	3,206,036	3,273,015	1,370,770	1,890,500	2,839,133
	1,591,303	1,654,302	2,107,741	2,065,940	2,032,576	1,989,012	2,193,132
	582,122	495,779	422,203	377,931	360,851	258,170	213,911
	<u>17,593,725</u>	<u>22,405,498</u>	<u>16,983,097</u>	<u>17,011,747</u>	<u>15,323,417</u>	<u>15,237,442</u>	<u>17,723,498</u>
	(1,370,695)	(624,383)	(627,782)	(800,627)	1,584,536	311,802	(61,515)
	59,967	26,379	10,374	31,039	89,424	36,118	46,378
	3,065,000	845,000	1,240,000	725,000	1,915,000	673,165	-
	15,496	-	-	8,979	54,059	113,660	91,682
	-	(2,495,000)	-	-	(670,000)	(1,035,000)	-
	(9,383)	-	-	-	-	-	-
	23,330	-	29,908	48,294	45,257	16,319	-
	1,517,215	1,198,109	1,264,400	1,128,481	658,062	1,354,075	980,246
	<u>(1,517,215)</u>	<u>(1,198,109)</u>	<u>(1,264,400)</u>	<u>(1,128,481)</u>	<u>(598,062)</u>	<u>(1,415,075)</u>	<u>(980,246)</u>
	<u>3,154,410</u>	<u>(1,623,621)</u>	<u>1,280,282</u>	<u>813,312</u>	<u>1,493,740</u>	<u>(256,738)</u>	<u>138,060</u>
\$	<u>1,783,715</u>	<u>\$ (2,248,004)</u>	<u>\$ 652,500</u>	<u>\$ 12,685</u>	<u>\$ 3,078,276</u>	<u>\$ 55,064</u>	<u>\$ 76,545</u>
	16.2%	14.9%	17.6%	16.7%	16.7%	16.4%	15.8%

**CITY OF BRAINERD, MINNESOTA
NET TAX CAPACITY AND ESTIMATED MARKET VALUE OF PROPERTY
LAST TEN FISCAL YEARS**

Payable Year	Residential Property (2)	Commercial/ Industrial Property	Other Property	Personal Property	Less: Captured Tax Increment
2008	\$ 5,386,950	\$ 3,821,622	\$ 82,233	\$ 51,094	\$ 561,103
2009	5,486,734	4,125,297	85,247	46,730	574,912
2010	5,562,890	4,104,885	98,656	47,971	586,453
2011	5,206,895	3,894,721	85,844	49,998	559,470
2012	4,044,050	3,662,615	71,880	51,392	366,921
2013	3,568,818	3,546,418	61,886	58,658	322,007
2014	3,640,038	3,532,321	43,709	47,306	335,230
2015	3,709,854	3,447,983	43,632	48,910	343,010
2016	4,115,162	3,142,104	46,383	49,053	283,032
2017	4,356,548	3,015,428	49,273	46,927	269,765

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

Notes:

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

<u>Net Tax Capacity (1)</u>	<u>Total Direct Tax Rate</u>	<u>Assessor's Estimated Market Value</u>	<u>Assessor's Estimated Taxable Market Value</u>	<u>Percentage of Net Tax Capacity as a Percentage of Est. Taxable Market Value</u>
\$ 8,780,796	44.6 %	\$ 751,695,200	\$ 739,585,900	1.19 %
9,169,096	44.5	776,407,800	766,211,800	1.20
9,227,949	45.8	779,115,100	773,527,200	1.19
8,677,988	48.0	731,773,000	727,117,400	1.19
7,463,016	54.5	676,712,100	598,149,800	1.25
6,913,773	58.4	622,641,700	545,139,400	1.27
6,928,144	64.9	629,997,700	550,809,900	1.26
6,907,369	71.7	632,116,200	550,978,400	1.25
7,069,670	74.6	656,258,500	577,935,000	1.22
7,198,411	75.1	674,149,600	594,903,199	1.21

**CITY OF BRAINERD, MINNESOTA
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS**

City Direct Rate			
Fiscal Year	Basic Rate	General Obligation Debt Service	Total Direct
2008	33.4 %	11.274	44.6 %
2009	33.1	11.418	44.5
2010	33.0	12.806	45.8
2011	32.5	15.552	48.0
2012	34.4	20.128	54.5
2013	37.2	21.727	58.9
2014	37.5	27.410	64.9
2015	43.9	27.797	71.7
2016	45.2	29.364	74.6
2017	46.2	28.839	75.1

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
17.7 %	29.7 %	1.3 %	48.7 %	93.3 %
17.5	27.8	1.6	46.9	91.4
20.8	27.3	1.6	49.7	95.5
21.7	29.8	1.8	53.3	101.3
23.5	31.6	2.0	57.1	111.6
24.2	33.5	1.8	59.5	118.4
24.8	34.5	1.8	61.1	126.0
25.3	33.8	1.8	60.9	132.6
25.4	32.8	1.8	60.0	134.6
24.6	31.6	1.8	58.0	133.0

**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)	Additions/ (Abatements)	Adjusted Tax Levy	Amount	Percentage of Levy
2008	\$ 2,826,296	\$ 990,000	\$ 3,816,296	\$ (237)	\$ 3,816,059	\$ 3,694,725	96.8 %
2009	2,915,349	1,046,959	3,962,308	(13,767)	3,948,541	3,799,438	96.2
2010	2,930,591	1,181,717	4,112,308	(274,068) (2)	3,838,240	3,687,724	96.1
2011	2,706,175	1,349,661	4,055,836	(288,593) (2)	3,767,243	3,537,182	93.9
2012	2,453,825	1,499,661	3,953,486	(41,766)	3,911,720	3,807,696	97.3
2013	2,453,486	1,500,000	3,953,486	(32,287)	3,921,199	3,826,847	97.6
2014	2,553,486	1,900,000	4,453,486	(32,371)	4,421,115	4,354,288	98.5
2015	2,978,835	1,920,000	4,898,835	(14,783)	4,884,052	4,786,294	98.0
2016	3,141,344	2,075,916	5,217,260	(5,429)	5,211,831	5,063,749	97.2
2017	3,297,862	2,075,916	5,373,778	(7,257)	5,366,521	5,210,252	97.1

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.

(2) Included in Additions/(Abatements) is the cut of Market Value Homestead Credit by the State of Minnesota.

Collections in Subsequent Years	Total Collections to Date			Outstanding Delinquent Taxes	Percentage of Levy Outstanding
	Amount	Percentage of Levy	Forfeitures		
\$ 118,725	\$ 3,813,450	99.9 %	\$ 2,610	\$ -	%
130,487	3,929,925	99.5	3,243	-	-
121,397	3,809,121	99.2	3,179	-	-
221,758	3,758,940	99.8	6,788	1,515	-
91,180	3,898,876	99.7	7,771	5,073	0.1
86,194	3,913,041	99.8	2,869	5,290	0.1
54,807	4,409,095	99.7	2,559	9,460	0.2
31,673	4,817,967	98.6	2,016	64,070	1.3
108,487	5,172,236	99.2	1,832	37,762	0.7
-	5,210,252	97.1	-	156,269	2.9

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

Taxpayer	2017			2008		
	Net Tax Capacity (1)	Rank	Percentage of Total City Net Tax Capacity	Net Tax Capacity (1)	Rank	Percentage of Total City Net Tax Capacity
KTJ Limited Partnership	\$ 251,266	1	3.49 %	\$ 278,050	1	3.17 %
Brainerd Lakes Integrated Health Systems	172,282	2	2.39	266,474	2	3.03
BNSF Railway Co.	168,861	3	2.35	63,402	8	0.72
Individuals	111,146	4	1.54	-	-	-
Edgewood Brainerd Senior Living	93,933	5	1.30	-	-	-
Liberty Group	75,710	6	1.05	-	-	-
GJR Investments, LLP	67,767	7	0.94	144,316	4	1.64
Individuals	55,055	8	0.76	-	-	-
Brainerd Land LLC	51,606	9	0.72	-	-	-
Westgate Mall Realty Group LLC	49,836	10	0.69	-	-	0.00
Wausau Paper Plant	-	-	-	188,960	3	2.15
IRET Properties LP	-	-	-	114,040	5	1.30
Developers Diversified Realty	-	-	-	103,860	6	1.18
Individual	-	-	-	103,114	7	1.17
Oak Ridge Professional Building	-	-	-	65,038	9	0.74
Individual	-	-	-	59,313	10	0.68
Total	\$ 1,097,462		15.25 %	\$ 1,386,567		15.79 %
Total Tax Capacity	\$ 7,198,411			\$ 8,780,796		

Source: Crow Wing County Auditor's Office.

Notes:

(1) The tax capacity of the property is calculated by applying a statutory formula to the estimated market value of the property.

**CITY OF BRAINERD, MINNESOTA
RATIOS OF OUTSTANDING DEBT BY TYPE
CURRENT YEARS AND TEN YEARS AGO**

Governmental Activities

Fiscal Year	General Obligation Bonds	GO Special Assessment Bonds	Lease Bonds	Equipment Certificates	GO Capital Improvement Bonds	Capital Lease
2008	\$ 1,430,000	\$ 11,190,000	\$ 1,085,000	\$ 450,000	\$ -	\$ 17,496
2009	1,147,500	12,690,000	1,030,000	225,000	-	9,963
2010	865,000	13,180,000	975,000	-	-	44,238
2011	885,000	14,925,000	920,000	-	-	50,914
2012	812,500	11,850,000	860,000	-	-	39,212
2013	737,500	10,780,000	800,000	445,000	-	21,371
2014	662,500	9,685,000	735,000	445,000	-	19,410
2015	587,500	9,230,000	-	300,000	635,000	60,893
2016	512,500	6,525,000	-	823,165	570,000	145,541
2017	432,500	4,825,000	-	538,532	490,000	188,724

* Revenue Bonds were classified as governmental bonds in previous years.
2015 is the first year they are classified as business-type.

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 148 for personal income and population data.

Other Long-Term Debt	Total Premium/ (Discount)	Business-Type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
		GO Utility Revenue Bonds	* Total Premium/ (Discount)			
\$ 430,228	\$ (17,369)	\$ 1,545,000	\$ -	\$ 16,130,355	3.8 %	\$ 1,156
279,133	36,492	1,490,000	-	16,908,088	3.9	1,212
122,483	26,679	1,405,000	-	16,618,400	3.8	1,223
-	38,717	1,320,000	-	18,139,631	3.9	1,333
-	35,860	1,235,000	-	14,832,572	3.1	1,089
-	62,911	1,145,000	-	13,991,782	2.9	1,024
-	105,629	1,050,000	-	12,702,539	2.5	930
-	140,182	1,765,000	51,966	12,770,541	2.3	934
-	131,471	4,502,200	414,441	13,624,318	2.5	997
-	101,629	4,241,400	382,357	11,200,142	2.0	819

**CITY OF BRAINERD, MINNESOTA
 RATIO OF NET GENERAL OBLIGATION BONDED DEBT
 TO ASSESSED VALUE AND NET GENERAL OBLIGATION DEBT PER CAPITA
 LAST TEN FISCAL YEARS**

Fiscal Year	Net General Bonded Debt Outstanding			Percentage of Estimated Taxable Market Value (2)	Per Capita (3)
	Gross Bonded Debt	Less Debt Service Fund (1)	Net Bonded Debt		
2008	\$ 14,147,631	\$ 1,597,213	\$ 12,550,418	1.70	\$ 899
2009	15,363,992	1,196,606	14,167,386	1.85	1,015
2010	15,476,679	206,665	15,270,014	1.97	1,124
2011	17,168,717	1,844,373	15,324,344	2.11	1,126
2012	13,933,360	498,556	13,434,804	2.25	986
2013	12,725,411	931,045	11,794,366	2.16	863
2014	11,503,129	919,286	10,583,843	1.92	775
2015	12,409,648	2,490,517	9,919,131	1.80	726
2016	12,655,612	1,610,081	11,045,531	1.91	807
2017	10,472,886	1,934,874	8,538,012	1.44	624

Notes:

- (1) Amount available for repayment of general obligation bonds.
- (2) See Estimated Assessed Value on pages 133 & 134 for property value data.
- (3) See the *Demographic and Economic Statistics* schedule on page 148 for population data.

**CITY OF BRAINERD, MINNESOTA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
DECEMBER 31, 2017**

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Overlapping:			
Crow Wing County General Obligation Bonds	\$ 15,892,845	6.7 %	\$ 1,064,821
ISD No. 181 General Obligation Bonds	49,110,000	12.6	<u>6,187,860</u>
Total Overlapping			<u>7,252,681</u>
City of Brainerd Direct Debt	6,576,384	100.0	<u>6,576,384</u>
Total Direct and Overlapping Debt:			<u><u>\$ 13,829,065</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			
	2008	2009	2010	2011
Debt Limit	\$ 22,187,577	\$ 23,292,234	\$ 23,373,453	\$ 21,953,190
Total Net Debt Applicable to Limit	<u>1,535,000</u>	<u>1,255,000</u>	<u>975,000</u>	<u>920,000</u>
Legal Debt Margin	** <u>\$ 20,652,577</u>	<u>\$ 22,037,234</u>	<u>\$ 22,398,453</u>	<u>\$ 21,033,190</u>
Total Net Debt Applicable to Limit as a Percentage of Debt Limit	6.92%	5.39%	4.17%	4.19%

** The legal debt margin is referred to statutorily as the "Net Debt Limit" and permits debt to be offset by debt service funds and current revenues which are applicable to the payment of debt in the current fiscal year. No such offset has been used to increase the margin as shown above.

Legal Debt Margin Calculation for Fiscal Year 2017

Estimated Market Value	\$ 674,149,600
Debt Limit (3% of Estimated Market Value)	20,224,488
Debt Applicable to Limit	<u>1,028,532</u>
Legal Debt Margin	<u><u>\$ 19,195,956</u></u>

Fiscal Year

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 19,858,386	\$ 18,679,251	\$ 18,899,931	\$ 18,963,486	\$ 19,687,755	\$ 20,224,488
<u>860,000</u>	<u>1,245,000</u>	<u>1,180,000</u>	<u>945,000</u>	<u>1,393,165</u>	<u>1,028,532</u>
<u><u>\$ 18,998,386</u></u>	<u><u>\$ 17,434,251</u></u>	<u><u>\$ 17,719,931</u></u>	<u><u>\$ 18,018,486</u></u>	<u><u>\$ 18,294,590</u></u>	<u><u>\$ 19,195,956</u></u>
4.33%	6.67%	6.24%	4.98%	7.08%	5.09%

**CITY OF BRAINERD, MINNESOTA
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS**

Fiscal Year	Special Assessment / Improvement Bonds				Revenue Bonds		
	Revenue	Debt Service		Coverage	Revenue	Less: Operating Expense	Net Available Revenue
		Principal	Interest				
2008	\$ 1,159,314	\$ 1,115,000	\$ 436,392	0.75	\$ 176,306	\$ -	\$ 176,306
2009	1,286,416	1,215,000	410,010	0.79	145,436	(431)	145,005
2010	1,375,495	1,180,000	466,044	0.84	142,062	(431)	141,631
2011	3,737,658	1,320,000	469,013	2.09	138,174	(216)	137,958
2012	2,044,629	3,920,000	367,008	0.48	18	-	18
2013	1,847,461	1,865,000	307,790	0.85	140,676	-	140,676
2014	2,001,376	1,820,000	264,734	0.96	146,676	(431)	146,245
2015	3,557,280	1,735,000	240,163	1.80	703,751	(349,095)	354,656
2016	3,541,087	2,705,000	216,841	1.21	783,274	(364,741)	418,533
2017	2,177,955	1,700,000	150,908	1.18	924,250	(369,786)	554,464

Note: Details regarding the City's outstanding debt can be found in Note 4 of the notes to the financial statements.

Revenue Bonds			Lease Obligations Bonds			
Debt Service			Revenue	Debt Service		
Principal	Interest	Coverage		Principal	Interest	Coverage
\$ -	\$ 58,279	3	\$ 98,766	\$ 50,000	\$ 51,798	0.97
55,000	62,478	1.23	100,929	55,000	49,883	0.96
85,000	59,678	0.98	100,853	55,000	48,650	0.97
85,000	56,278	0.98	104,344	55,000	46,665	1.03
85,000	52,878	-	66,154	60,000	44,445	0.63
90,000	49,378	1.01	103,536	60,000	45,145	0.98
95,000	45,678	1.04	102,221	65,000	37,183	1.00
105,000	49,870	2.29	-	-	-	-
105,000	32,715	3.04	-	-	-	-
260,800	180,157	1.26	-	-	-	-

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

Fiscal Year	Population (1)	Personal Income (thousands of dollars)(2)	Per Capita Personal Income (3)	School Enrollment (4)	Unemployment Rate (5)
2008	13,959	\$ 427,076	\$ 30,595	6,805	11.8 %
2009	13,954	454,607	32,579	6,819	16.5
2010	13,590	456,339	33,579	6,707	15.0
2011	13,606	475,421	34,942	6,625	13.8
2012	13,621	489,770	35,957	6,550	12.1
2013	13,662	503,322	36,841	6,612	11.6
2014	13,659	534,108	39,103	6,600	9.9
2015	13,671	553,676	40,500	6,648	6.0
2016	13,679	572,972	41,887	6,745	5.7
2017	13,679	* 572,972 *	41,887 *	6,744	5.2

Notes:

(1) Population is shown as the latest federal census data/state demographer's estimate.

(2) Calculated as (1) x (3) / \$1,000

(3) 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.

(4) Brainerd Public School District # 181, Preschool - Grade 12.

(5) Unemployment rate is for the City of Brainerd

* Most Recent Information not Available

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

Taxpayer	2017			2008		
	Employees	Rank	Percentage of Total Population	Employees	Rank	Percentage of Total Population
Essentia Health - Central Region (2)	1,500	1	11.0 %	975	2	7.0 %
Independent School District No. 181 (1)	897	2	6.6	1,700	1	12.2
Ascenus (3)	500	3	3.7	404	5	2.9
Crow Wing County	442	4	3.2	475	4	3.4
Cub Foods/Super Valu (3 locations)	275	5	2.0	-		-
Central Lakes College	261	6	1.9	313	8	2.2
Mills Companies	240	7	1.8	340	6	2.4
Bang Printing	210	8	1.5	-		-
Good Samaritan Center-Bethany	175	9	1.3	325	7	2.3
Good Samaritan Center- Woodland	175	9	1.3	150	10	1.1
Minnestoa Care	145	10	1.1	-		-
Brainerd Regional Human Services Center	-		-	677	3	4.8
Brainerd Medical Center	-		-	310	9	2.2
Total	4,820		35.4 %	5,669		40.5 %

Source: Brainerd Lakes Area Economic Development Corporation. The employers represent major employers in the City of Brainerd as well as the surrounding areas.

Notes:

- (1) Includes 1,000 permanent and 700 temporary/casual employees for 2008
- (2) Known as St. Joseph Medical Center in 2008
- (3) Known as Bisys Retirement Services in 2008

**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,				
	2008	2009	2010	2011	2012
General Government					
Management Services	2.00	2.00	2.00	2.00	2.00
Finance	4.00	4.00	4.00	4.00	4.00
Planning	2.00	2.00	1.00	1.00	1.00
Building	4.00	4.00	4.00	2.00	3.00
Total General Government	<u>12.00</u>	<u>12.00</u>	<u>11.00</u>	<u>9.00</u>	<u>10.00</u>
Public Safety					
Police					
Officers	26.00	25.00	23.00	23.00	22.00
Civilians (1)	9.04	9.10	7.21	7.22	7.26
Total Police	<u>35.04</u>	<u>34.10</u>	<u>30.21</u>	<u>30.22</u>	<u>29.26</u>
Fire					
Officers	7.00	7.00	6.00	8.00	8.00
Civilians	1.00	1.00	1.00	1.00	1.00
Paid On-Call Volunteers (1)	4.24	4.02	4.88	3.81	3.72
Total Fire	<u>12.24</u>	<u>12.02</u>	<u>11.88</u>	<u>12.81</u>	<u>12.72</u>
Total Public Safety	<u>47.28</u>	<u>46.12</u>	<u>42.09</u>	<u>43.03</u>	<u>41.98</u>
Public Works					
Engineering (1)	8.07	7.36	6.24	6.18	7.10
Other	1.00	1.00	1.00	1.00	1.00
Total Public Works	<u>9.07</u>	<u>8.36</u>	<u>7.24</u>	<u>7.18</u>	<u>8.10</u>
Culture and Recreation (1)	14.46	14.88	12.47	12.72	12.64
Street, Sanitary and Storm Sewer	10.00	9.00	7.00	7.00	6.00
Transit	1.00	1.00	1.00	1.00	1.00
Arena	4.40	-	-	-	-
Total	<u>98.21</u>	<u>91.36</u>	<u>80.80</u>	<u>79.93</u>	<u>79.72</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 2,080 hours.

Full-time-Equivalent Employees as of December 31,

2013	2014	2015	2016	2017
2.00	2.00	2.00	2.00	2.38
4.00	4.00	4.00	4.00	4.00
1.00	1.00	1.00	1.00	1.26
3.00	3.00	2.00	3.00	3.25
<u>10.00</u>	<u>10.00</u>	<u>9.00</u>	<u>10.00</u>	<u>10.89</u>
23.00	22.00	23.00	23.00	24.00
7.32	7.24	7.21	7.25	7.36
<u>30.32</u>	<u>29.24</u>	<u>30.21</u>	<u>30.25</u>	<u>31.36</u>
8.00	7.00	1.00	2.00	2.00
1.00	1.00	1.00	1.00	1.00
3.45	3.87	4.25	4.80	4.48
<u>12.45</u>	<u>11.87</u>	<u>6.25</u>	<u>7.80</u>	<u>7.48</u>
<u>42.77</u>	<u>41.11</u>	<u>36.46</u>	<u>38.05</u>	<u>38.84</u>
7.23	7.71	7.14	7.03	5.73
1.00	1.00	1.50	1.50	2.24
<u>8.23</u>	<u>8.71</u>	<u>8.64</u>	<u>8.53</u>	<u>7.97</u>
12.77	12.36	12.36	12.07	12.17
7.00	7.00	7.00	7.00	7.00
1.00	1.00	1.00	1.00	1.00
-	-	-	-	-
<u>81.77</u>	<u>80.18</u>	<u>74.46</u>	<u>76.65</u>	<u>77.87</u>

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

Function/Program	Fiscal Year				
	2008	2009	2010	2011	2012
General Government					
Elections					
Primary	1	-	1	-	1
General	1	-	1	-	1
Registered voters					
Primary	7,001	-	6,736	-	6,451
General	8,467	-	7,269	-	7,966
Number of votes cast					
Primary	742	-	1,492	-	890
General	6,113	-	3,974	-	5,868
Voter participation (registered)					
Primary	10.6%	-	22.1%	-	13.8%
General	72.2%	-	54.7%	-	73.7%
Public Safety					
Police					
Part I Crimes (1)	750	665	691	836	844
Part II Crimes (2)	1,649	1,603	1,647	1,726	1,554
Total Incidents	15,013	14,639	14,670	15,949	16,542
Fire					
Fire/Other	360	411	422	421	821
Rescue	69	34	72	75	70
Inspections					
Building Permits Issued	408	536	625	652	534
Value of Building Permits	\$ 19,934,790	\$ 13,034,987	\$ 5,537,981	\$ 6,223,486	\$ 4,732,499
Public Works					
General Maintenance (hours)	7,829	6,192	6,490	7,015	5,349
Traffic Control (hours)	1,730	881	653	675	957
Snow Removal (hours)	2,959	4,194	2,880	3,108	1,879
Culture and Recreation					
Program Participants	2,453	2,617	2,454	2,437	2,321
Sanitary Sewer					
Sanitary Sewer Accounts	4,563	4,561	4,570	4,569	4,593
Storm Sewer					
Residential Accounts	3,943	4,041	4,046	4,053	4,062
Commercial Accounts	672	692	696	695	705
Parking					
Parking Leases	185	185	185	185	185
Transit					
Total number of Route Miles (3)	289,314	266,576	281,067	283,363	275,339
Number of Passengers	71,200	64,768	65,938	67,436	61,176

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.
- (4) Information not available is labeled N/A.

Fiscal Year

2013	2014	2015	2016	2017
-	1	-	1	-
-	1	-	1	-
-	6,568	-	6,422	-
-	7,031	-	7,819	-
-	879	-	452	-
-	4,078	-	5,923	-
-	13.4%	-	7.0%	-
-	58.0%	-	75.8%	-
917	881	863	857	727
1,663	1,784	1,758	1,962	2,522
17,131	17,774	18,104	17,961	16,899
1,126	422	435	397	424
127	86	60	62	45
495	538	503	558	509
\$ 4,316,448	\$ 7,837,040	\$ 17,034,773	\$ 9,564,814	\$ 13,540,726
5,863	7,123	7,629	8,239	9,386
1,201	1,184	1,361	1,367	1,233
4,179	3,827	1,523	2,129	1,303
2,058	2,145	2,248	2,159	2,134
4,602	4,596	4,600	4,625	4,674
4,044	4,097	3,977	3,868	4,027
698	709	695	757	716
185	185	185	185	185
262,966	282,197	280,560	274,091	276,471
62,183	80,867	81,870	80,658	77,824

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

Function/Program	Fiscal Year				
	2008	2009	2010	2011	2012
Public Safety					
Police					
Stations	1	1	1	1	1
Patrol Units	11	11	11	11	11
Other Specialty Units	6	6	6	5	5
Fire					
Stations	2	2	2	2	2
Fire Trucks	10	10	10	10	10
Other Rescue Units	13	13	13	13	13
Fire Rating	4	4	4	4	4
Public Works					
Vehicles	40	40	40	39	39
Streets (Miles) (1)	85.25	85.25	85.25	85.25	85.25
Sidewalks (Miles)	34.8	34.8	34.8	34.8	35.8
Trails (miles)	6.23	6.23	6.9	6.9	8.1
Culture and Recreation					
Parks					
Parks	16	16	16	17	17
Park Acres	319	319	340	374	374
Park Shelters	11	11	11	11	11
Basketball Courts	1	1	1	1	1
Boat Launches	3	3	3	3	3
Fishing Pier	3	3	3	3	3
Skating Rinks	6	6	6	6	6
Soccer Fields	1	1	1	1	1
Softball Fields	7	7	7	7	7
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)	77.19	77.19	77.19	77.19	77.19
Storm Sewer					
Pipe (Miles)	17.33	17.33	17.33	17.33	17.33
Parking					
Paylots / Permit Parking	5	5	5	5	5
Transit					
Buses	3	4	4	4.5	4.5

Source: Various City Departments

Note:

(1) Includes both paved and unpaved roads.

Fiscal Year				
2013	2014	2015	2016	2017
1	1	1	1	1
11	9	9	9	9
5	6	7	7	7
2	2	2	2	2
10	10	10	8	8
13	13	13	12	12
4	4	4	4	4
39	39	39	38	38
85.25	85.25	82.25	82.25	82.25
35.8	36.41	36.41	36.41	36.41
10.2	10.2	10.68	10.68	10.68
18	18	18	14	14
392	392	392	392	392
11	11	11	11	11
1	1	1	1	1
3	3	3	3	3
3	3	3	3	3
6	6	6	6	6
1	1	1	1	1
7	7	7	7	7
1	1	1	1	1
5	5	5	5	5
2	2	2	2	2
6	7	7	7	7
77.19	77.19	77.19	77.19	79.42
17.33	17.33	17.52	17.52	17.62
5	5	5	5	5
4.5	7	7	7	7

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OTHER REPORTS SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of City of Brainerd (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 22, 2018.

The City's basic financial statements include the operations of the Housing and Redevelopment Authority of Brainerd (HRA) and Brainerd Public Utilities (BPU) (component units) for the year ended December 31, 2017. This report does not include the operations of the HRA and BPU because the component units engaged for their own separate audits in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Honorable Mayor and
Members of the City Council
City of Brainerd

Internal Control Over Financial Reporting (Continued)

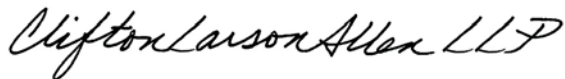
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
June 22, 2018



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Brainerd's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

The City's basic financial statements include the operations of the Housing and Redevelopment Authority of Brainerd (HRA), which expended \$1,977,771 in federal awards which are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2017. 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 the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Honorable Mayor and
Members of the City Council
City of Brainerd

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
June 22, 2018

CITY OF BRAINERD, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

FEDERAL AGENCY/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
PRIMARY GOVERNMENT				
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through Minnesota Department of Employment and Economic Development				
Community Development Block Grants/State's Programs and				
Non-Entitlement Grants in Hawaii - #CDAP-12-0020-O-FY13	14.228	CDAP-15-0038-O-FY16	\$ 324,167	\$ 47,334
Total U.S. Department of Justice			<u>324,167</u>	<u>47,334</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through State Department of Natural Resources				
Cooperative Forestry Assistance	10.664	N/A	2,022	300
U.S. DEPARTMENT OF EDUCATION				
Passed Through Minnesota Department of Education				
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N/A	580	-
U.S. DEPARTMENT OF JUSTICE				
Passed Through Minnesota Department of Justice				
Bulletproof Vest Partnership Program	16.607	N/A	1,276	-
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through State Department of Public Safety				
Formula Grants for Other than Nonurbanized Areas	20.509	MN-2017-001-00	290,557	-
State and Community Highway Safety (Highway Safety Cluster)	20.600	F-ENFRC17-2017-BRAINDPD	\$ 4,695	
State and Community Highway Safety (Highway Safety Cluster)	20.600	F-ENFRC18-2018-BRAINDPD	<u>3,125</u>	
Total State and Community Highway Safety			7,820	6,942
National Priority Safety Programs(Highway Safety Cluster)	20.616	F-ENFRC17-2017-BRAINDPD	<u>2,263</u>	
Total National Priority Safety Programs			<u>2,263</u>	1,576
Total Highway Safety Cluster			10,083	
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	F-ENFRC17-2017-BRAINDPD	16,106	
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	F-ENFRC18-2018-BRAINDPD	<u>5,795</u>	
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			21,901	16,901
Total U.S. Department of Transportation			<u>322,541</u>	<u>25,419</u>
Total Primary Government Federal Awards			650,586	73,053
DISCRETELY PRESENTED COMPONENT UNITS (NOT INCLUDING BRAINERD HRA OR BPU)				
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through Minnesota Department of Transportation				
Airport Improvement Program	20.106	AIP-3-27-0014-040-2015	84,833	
Airport Improvement Program	20.106	AIP-3-27-0014-041-2016	230,942	
Airport Improvement Program	20.106	AIP-3-27-0014-042-2017	<u>713,938</u>	
Total Airport Improvement Program			1,029,713	-
Total U.S. Department of Transportation			<u>1,029,713</u>	-
Total Discretely Presented Component Units			1,029,713	-
Total Federal Awards			<u>\$ 1,680,299</u>	<u>\$ 73,053</u>

Notes to Schedule of Expenditures of Federal Awards:

- 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. This schedule does not include the federal expenditures of the Housing and Redevelopment Authority of Brainerd or Brainerd Public Utilities. The City's reporting entity is defined in Note 1 to the basic financial statements.
- 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. The City has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.



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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brainerd (the City), Minnesota, as of December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated June 22, 2018.

The City's basic financial statements include the operations of Brainerd Public Utilities and the Housing and Redevelopment Authority of Brainerd (HRA). This report does 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 Other Political Subdivisions*.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, political subdivisions miscellaneous provisions and tax increment financing.

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

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

CliftonLarsonAllen LLP

Brainerd, Minnesota
June 22, 2018

**CITY OF BRAINERD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Project

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes X no

CITY OF BRAINERD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017

FINDINGS – FINANCIAL STATEMENT AUDIT

None noted.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None noted.

FINDINGS – MINNESOTA LEGAL COMPLIANCE

None noted.