

CITY OF BRECKENRIDGE
PRESENTATION TO THE PUBLIC
UTILITIES COMMISSION
Year Ended December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Public Utilities Commission
City of Breckenridge, Minnesota
Breckenridge, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Utilities Commission Enterprise Funds of the City of Breckenridge, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Commission's 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.

Auditor's 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 auditor's 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 entity'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 entity'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.

As discussed in Note 1, the financial statements present only the electric, sewer, water, and storm sewer facility funds and are not intended to present fairly the financial position of the City of Breckenridge, Minnesota, and the results of its operation and changes in financial position of its proprietary and similar trust fund types in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the Public Utilities Commission Enterprise Funds of the City as of December 31, 2019, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was made for the purpose of forming opinions on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Fergus Falls, Minnesota
May 1, 2020

BASIC FINANCIAL STATEMENTS

CITY OF BRECKENRIDGE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2019

	Business-Type Activities – Enterprise Funds				Total
	Electric	Sewer	Water	Nonmajor Storm Sewer	
ASSETS					
Current Assets					
Cash and investments	\$ 3,606,249	\$ 1,102,778	\$ 1,884,494	\$ 441,153	\$ 7,034,674
Accounts receivable	380,498	47,719	102,907	12,418	543,542
Special assessments receivable	-	-	31,198	-	31,198
Inventories	228,330	-	28,159	-	256,489
Total Current Assets	<u>4,215,077</u>	<u>1,150,497</u>	<u>2,046,758</u>	<u>453,571</u>	<u>7,865,903</u>
Noncurrent Assets					
Capital assets not being depreciated	20,350	835	9,502,973	-	9,524,158
Capital assets being depreciated, net	1,614,216	2,308,709	1,581,875	102,460	5,607,260
Total Noncurrent Assets	<u>1,634,566</u>	<u>2,309,544</u>	<u>11,084,848</u>	<u>102,460</u>	<u>15,131,418</u>
Total Assets	<u>5,849,643</u>	<u>3,460,041</u>	<u>13,131,606</u>	<u>556,031</u>	<u>22,997,321</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension	33,683	7,053	28,615	-	69,351
LIABILITIES					
Current Liabilities					
Accounts payable	188,991	22,171	13,178	-	224,340
Accrued expenses	10,327	-	637	-	10,964
Accrued interest payable	-	7,149	16,760	-	23,909
Customer deposits	96,004	-	-	-	96,004
Compensated absences	3,993	1,830	2,330	-	8,153
Current portion of long-term debt	-	80,000	117,000	-	197,000
Total Current Liabilities	<u>299,315</u>	<u>111,150</u>	<u>149,905</u>	<u>-</u>	<u>560,370</u>
Noncurrent Liabilities					
Compensated absences	39,715	27,750	34,576	-	102,041
Bonds and loans payable, net	-	626,000	3,618,396	-	4,244,396
Net pension liability	320,798	65,681	248,832	-	635,311
Total Noncurrent Liabilities	<u>360,513</u>	<u>719,431</u>	<u>3,901,804</u>	<u>-</u>	<u>4,981,748</u>
Total Liabilities	<u>659,828</u>	<u>830,581</u>	<u>4,051,709</u>	<u>-</u>	<u>5,542,118</u>
DEFERRED INFLOWS OF RESOURCES					
Pension	77,421	15,425	65,730	-	158,576
EXCESS OF TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES OVER TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES					
	<u>\$ 5,146,077</u>	<u>\$ 2,621,088</u>	<u>\$ 9,042,782</u>	<u>\$ 556,031</u>	<u>\$ 17,365,978</u>
NET POSITION					
Net investment in capital assets	\$ 1,634,566	\$ 1,603,544	\$ 7,349,452	\$ 102,460	\$ 10,690,022
Unrestricted	3,511,511	1,017,544	1,693,330	453,571	6,675,956
TOTAL NET POSITION	<u>\$ 5,146,077</u>	<u>\$ 2,621,088</u>	<u>\$ 9,042,782</u>	<u>\$ 556,031</u>	<u>\$ 17,365,978</u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF BRECKENRIDGE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2019

	Business-Type Activities – Enterprise Funds				Total
	Electric	Sewer	Water	Nonmajor Storm Sewer	
SALES AND COST OF SALES					
Sales	\$ 3,064,043	\$ -	\$ -	\$ -	\$ 3,064,043
Cost of power	(1,846,235)	-	-	-	(1,846,235)
Gross profit	1,217,808	-	-	-	1,217,808
OPERATING REVENUES					
Charges for services	-	398,292	1,038,336	108,827	1,545,455
OPERATING EXPENSES					
Distribution expense	162,255	-	288,055	-	450,310
Customer accounts	71,362	-	67,567	26	138,955
Administration and general	108,101	75,014	99,543	13,042	295,700
Salaries and wages	72,332	73,431	19,865	-	165,628
Payroll taxes	24,373	4,807	19,273	-	48,453
Pension expense	94,181	20,923	50,839	-	165,943
Employee benefits	72,636	-	72,797	-	145,433
Repairs and maintenance	111,767	-	44,622	2,514	158,903
Supplies	-	9,168	2,818	-	11,986
Testing	-	3,536	-	-	3,536
Depreciation	95,648	99,050	186,126	4,484	385,308
Miscellaneous	3,142	4,610	1,592	-	9,344
Total Operating Expenses	815,797	290,539	853,097	20,066	1,979,499
OPERATING INCOME	402,011	107,753	185,239	88,761	783,764
NONOPERATING REVENUES (EXPENSES)					
Special assessments	-	-	3,673	-	3,673
Federal grants	-	-	735,282	-	735,282
State grants	-	-	856,539	-	856,539
Net investment earnings	93,857	29,352	47,854	10,841	181,904
Other income	6,042	534	4,990	76	11,642
Interest expense	-	(21,177)	(33,510)	-	(54,687)
Net Nonoperating Revenues (Expenses)	99,899	8,709	1,614,828	10,917	1,734,353
NET INCOME BEFORE TRANSFERS	501,910	116,462	1,800,067	99,678	2,518,117
TRANSFERS					
Transfers in	178,409	-	-	-	178,409
Transfers out	(225,000)	-	-	-	(225,000)
Transfers, Net	(46,591)	-	-	-	(46,591)
CHANGE IN NET POSITION	455,319	116,462	1,800,067	99,678	2,471,526
TOTAL NET POSITION – BEGINNING	4,690,758	2,504,626	7,242,715	456,353	14,894,452
TOTAL NET POSITION – ENDING	<u>\$ 5,146,077</u>	<u>\$ 2,621,088</u>	<u>\$ 9,042,782</u>	<u>\$ 556,031</u>	<u>\$ 17,365,978</u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF BRECKENRIDGE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2019

	Business-Type Activities – Enterprise Funds				Total
	Electric	Sewer	Water	Nonmajor Storm Sewer	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 3,098,902	\$ 400,146	\$ 1,045,723	\$ 109,533	\$ 4,654,304
Payments to suppliers and services provided	(2,386,051)	(65,709)	(594,207)	(15,582)	(3,061,549)
Payments to employees	(66,853)	(72,413)	(73,744)	-	(213,010)
Payments to other governmental units	(49,277)	(9,875)	(38,475)	-	(97,627)
Other receipts	6,042	534	4,990	76	11,642
Other payments	(3,142)	(4,610)	(1,592)	-	(9,344)
Net Cash Provided by Operating Activities	<u>599,621</u>	<u>248,073</u>	<u>342,695</u>	<u>94,027</u>	<u>1,284,416</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(225,000)	-	-	-	(225,000)
Transfers from other funds	178,409	-	-	-	178,409
Special assessments	-	-	18,640	-	18,640
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(46,591)</u>	<u>-</u>	<u>18,640</u>	<u>-</u>	<u>(27,951)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(215,295)	(49,010)	(2,921,678)	-	(3,185,983)
Federal grants	-	-	735,282	-	735,282
State grants	-	-	1,148,978	-	1,148,978
Net proceeds from bond issues	-	-	1,630,127	-	1,630,127
Principal paid on capital debt	-	(78,000)	(115,000)	-	(193,000)
Interest paid on capital debt	-	(21,968)	(25,261)	-	(47,229)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(215,295)</u>	<u>(148,978)</u>	<u>452,448</u>	<u>-</u>	<u>88,175</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	<u>93,857</u>	<u>29,352</u>	<u>47,854</u>	<u>10,841</u>	<u>181,904</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>431,592</u>	<u>128,447</u>	<u>861,637</u>	<u>104,868</u>	<u>1,526,544</u>
CASH AND CASH EQUIVALENTS – BEGINNING	<u>3,174,657</u>	<u>974,331</u>	<u>1,022,857</u>	<u>336,285</u>	<u>5,508,130</u>
CASH AND CASH EQUIVALENTS – ENDING	<u>\$ 3,606,249</u>	<u>\$ 1,102,778</u>	<u>\$ 1,884,494</u>	<u>\$ 441,153</u>	<u>\$ 7,034,674</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income	\$ 402,011	\$ 107,753	\$ 185,239	\$ 88,761	\$ 783,764
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation expense	95,648	99,050	186,126	4,484	385,308
Other income related to operations	6,042	534	4,990	76	11,642
Net operating changes in					
Accounts receivable	34,731	1,854	7,387	706	44,678
Inventory	(8,281)	-	(8,389)	-	(16,670)
Deferred outflows of resources	40,190	8,604	39,574	-	88,368
Accounts payable	(5,414)	22,009	(10,416)	-	6,179
Accrued expenses	(150)	-	(2)	-	(152)
Accrued payroll	4,736	(4,839)	393	-	290
Customer deposits	128	-	-	-	128
Compensated absences	743	5,857	(54,272)	-	(47,672)
Net pension liability	68,281	15,079	26,758	-	110,118
Deferred inflows of resources	(39,044)	(7,828)	(34,693)	-	(81,565)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 599,621</u>	<u>\$ 248,073</u>	<u>\$ 342,695</u>	<u>\$ 94,027</u>	<u>\$ 1,284,416</u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The public utility activities of the City of Breckenridge are nonregulated. However, the City follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities and the National Association of Regulatory Utility Commissioners Uniform Systems of Accounts prescribed for Class A and B Water Utilities.

Reporting Entity

For financial reporting purposes, a reporting entity's financial statements should include all component units over which another component unit (oversight unit) is financially accountable.

Based upon the criteria above, there are no component units to be included within the City of Breckenridge Public Utilities Commission (the PUC) as a reporting entity; however, the PUC is included as part of the City of Breckenridge's reporting entity.

The following represents the significant accounting policies used by the PUC:

Basis of Accounting

The financial statements of the PUC are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, sewer, water, and storm sewer facility funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments (Including Cash Equivalents)

Available cash balances from all funds are pooled and invested in accordance with Minnesota Statutes. Each fund's share of the pool is shown on the financial statements as "cash and investments." For reporting purposes, petty cash and change funds are also considered cash and cash equivalents. For the purposes of the statement of cash flows, the PUC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Certificates of deposit are valued at cost plus reinvested dividends and other investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. Adjustments necessary to record all investments at fair value are recorded in the operating statement as increases or decreases in investment income.

Receivables

In the government-wide financial statements, accounts receivable consists of all revenues earned at year-end and not yet received. These amounts include charges for services rendered or for goods and material provided by the PUC, including amounts for unbilled services. No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed necessary. Receivables are also recognized for special assessments.

Inventories

The inventory as of year-end consists of retail items valued at cost. The City does not maintain a central store for other supply items. Therefore, expenditures are recognized when the items are purchased.

Prepaid Items

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.

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure (i.e. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the PUC based on the discretion of the Director of Public Services. All capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed by the PUC, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any.

Compensated Absences

It is the PUC's policy that all regular employees are entitled to vacation time with pay based upon length of continuous service. Annual vacation leave may not be accumulated in excess of the leave earned during each year. Upon termination, employees are compensated for unused vacation leave.

The PUC employees hired prior to January 1, 1985, can accumulate up to 180 days sick leave. Outstanding sick leave is payable as severance at 100% for qualified retirements and at 50% if leaving the City after ten years of employment.

The PUC employees hired after January 1, 1985, can accumulate up to 120 days of sick leave. Outstanding sick leave is payable as severance at 50% for qualified retirements and at 25% if leaving the City after ten years of employment.

Accumulated unpaid vested sick leave is accrued when incurred.

Long-Term Debt

All long-term debt obligations to be repaid are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bond using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one type of item that qualifies for reporting in this category. It is a combination of actuarial valuations of the pension plans and employer contributions to the plan from July through December of the current fiscal period.

CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item that qualifies for reporting in this category. This item relates to actuarial valuations of the pension plans.

Net Position

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
2. Restricted – consists of net position with constraints placed on their use by either external groups such as creditors, grantors or contributors, or laws or regulations of other governments, or law through constitutional provisions or enabling legislation.
3. Unrestricted – consists of all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA), and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA’s fiscal year is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

Minnesota Statutes authorize the PUC to deposit its cash and to invest in certificates of deposit in financial institutions designated by the City Council.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. Deposits in each local area bank are insured by the FDIC up to specified limits. All financial institutions acting as a depository for the PUC are required to pledge collateral to secure all the PUC funds over and above amounts guaranteed by the FDIC. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes: 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 department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk – the risk that in the event of a financial institution failure the PUC’s deposits may not be returned to the PUC. The PUC’s deposit policy for custodial credit risk follows Minnesota Statutes for deposits, and states the PUC will obtain collateral or bonds for all uninsured amounts. All of the bank balance was covered by federal depository insurance or by collateral held by the PUC’s agent in the PUC’s name; therefore, as of year-end, the PUC is not exposed to custodial credit risk.

Investments

Investment of the PUC funds is restricted by state statutes. Available investments are limited to:

- Governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), and other securities, which are direct obligations or are guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress
- General obligations of any state or local government rated “A” or better by a national bond rating service
- Revenue obligations of any state or local government rated “AA” or better by a national bond rating service
- General obligations of the Minnesota Housing Finance Agency rated “A” or better by a national bond rating agency

CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

- Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less
- Time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks
- General obligation temporary bonds of the same governmental entity issued under Minnesota Statutes 429.091, subd. 7, 469.178, subd. 5, or 475.61, subd. 6
- Repurchase agreements consisting of collateral allowable in Minnesota Statutes 118A.04, and reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" of public funds of the government entity; with any other financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$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; reverse agreements may only be entered into for a period of 90 days or less and only to meet short-term cash flow needs
- Shares of investment companies registered under the Federal Investment Company Act of 1940 that either (1) holds itself out as a money market fund and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization or (2) whose shares are registered under the Federal Securities Act of 1933, receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization, and is invested in financial instruments with a final maturity no longer than 13 months
- Guaranteed investment contracts that are issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing if similar debt obligations of the issuer are rated in one of the two highest categories by a nationally recognized rating agency

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The PUC does not have a formal investment policy.

Credit Risk – Credit risk is defined as the risk that an issuer or other counterparty will not fulfill its obligation. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The PUC's investments in money market and certificates of deposit are not rated.

CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The PUC places no limit of the amount that the City may invest in any one issuer.

NOTE 3 – CAPITAL ASSETS

Activity in capital assets for the PUC for the year ended December 31, 2019 was as follows:

	<u>Balance</u> <u>12/31/2018</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance</u> <u>12/31/2019</u>
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 62,748	\$ -	\$ -	\$ 62,748
Construction in progress	6,548,233	2,913,177	-	9,461,410
Total capital assets not being depreciated	6,610,981	2,913,177	-	9,524,158
Capital assets being depreciated				
Buildings	1,603,480	-	-	1,603,480
Equipment	5,195,850	37,153	-	5,233,003
Infrastructure	10,407,647	235,490	-	10,643,137
	<u>17,206,977</u>	<u>272,643</u>	<u>-</u>	<u>17,479,620</u>
Accumulated depreciation for				
Buildings	(1,173,677)	(59,755)	-	(1,233,432)
Equipment	(3,985,367)	(101,897)	-	(4,087,264)
Infrastructure	(6,328,008)	(223,656)	-	(6,551,664)
	<u>(11,487,052)</u>	<u>(385,308)</u>	<u>-</u>	<u>(11,872,360)</u>
Total capital assets being depreciated, net	<u>5,719,925</u>	<u>(112,665)</u>	<u>-</u>	<u>5,607,260</u>
TOTAL BUSINESS-TYPE ACTIVITIES, NET	<u>\$ 12,330,906</u>	<u>\$ 2,800,512</u>	<u>\$ -</u>	<u>\$ 15,131,418</u>

Construction in progress for the business-type activities at December 31, 2019 consists of a new water treatment plant project. Final costs at completion is unknown at this time.

**CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

NOTE 3 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following functions or programs:

Electric	\$ 95,648
Sewer	99,050
Water	186,126
Storm sewer	<u>4,484</u>
TOTAL	<u>\$ 385,308</u>

NOTE 4 – LONG-TERM DEBT

The PUC's long-term debt activity for the year ended December 31, 2019 was as follows:

	<u>Balance 12/31/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2019</u>	<u>Due Within One Year</u>
Business-Type Activities					
General obligations					
Bonds	\$ 784,000	\$ -	\$ 78,000	\$ 706,000	\$ 80,000
Notes	<u>2,220,269</u>	<u>1,630,127</u>	<u>115,000</u>	<u>3,735,396</u>	<u>117,000</u>
Total Bonds and Notes Payable	3,004,269	1,630,127	193,000	4,441,396	197,000
Other Liabilities					
Severance payable	157,866	102,156	149,828	110,194	8,153
Net pension liability	<u>525,193</u>	<u>110,118</u>	<u>-</u>	<u>635,311</u>	<u>-</u>
Total Other Liabilities	<u>683,059</u>	<u>212,274</u>	<u>149,828</u>	<u>745,505</u>	<u>8,153</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 3,687,328</u>	<u>\$ 1,842,401</u>	<u>\$ 342,828</u>	<u>\$ 5,186,901</u>	<u>\$ 205,153</u>

Interest payments made during the year ended December 31, 2019 totaled \$47,228.

**CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

NOTE 4 – LONG-TERM DEBT (Continued)

Details of bonds payable at December 31, 2019 are as follows:

	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/2019</u>
Business-Type Activities				
Notes				
2008 Sewer revenue	\$ 1,392,874	2027	2.80%	\$ 706,000
2017 MNPFA loan	3,983,588	2047	1.11%	<u>3,735,396</u>
TOTAL BUSINESS-TYPE ACTIVITIES				<u><u>\$ 4,441,396</u></u>

In 2008, the City authorized the issuance of a \$1,392,874 of general obligation sewer revenue note. The proceeds from the note were used to finance the costs of certain improvements for the expansion and upgrades to the wastewater treatment plant. The note is being repaid from net revenues from operation of the municipal sewer plant system.

In 2017, the City authorized the issuance of \$3,983,588 of loan funds with the Minnesota Public Facilities Authority. The loan is being used to finance the new water treatment facility. The loan is being repaid from gross revenues from operation of the municipal water utility.

The annual debt service requirements to maturity for all bonds outstanding are as follows:

Years Ending December 31	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 197,000	\$ 60,866
2021	200,000	59,803
2022	204,000	54,904
2023	208,000	51,202
2024	211,000	47,420
2025 - 2029	913,000	180,360
2030 - 2034	666,000	128,578
2035 - 2039	704,000	92,734
2040 - 2044	743,000	50,782
2045 - 2047	<u>395,396</u>	<u>10,356</u>
TOTAL	<u><u>\$ 4,441,396</u></u>	<u><u>\$ 737,005</u></u>

CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 – INTERFUND TRANSFERS

The City's charter provides for the transfer of a maximum of 85% of the excess funds needed to meet obligations of the electric and water funds to the general fund or such other funds as may be designated. Such transfers amounted to \$225,000 for the year ended December 31, 2019.

NOTE 6 – DEFINED BENEFIT PENSION PLAN

The employees of the public utility department belong to the state-wide Public Employee Retirement Association (PERA). Some employees are covered exclusively by PERA and most are in a coordinated program with Social Security. The total employer cost of this plan was expensed during the year. PERA is a statewide contributory plan for which an individual employer's portion of plan benefits and net assets available for plan benefits is not determinable.

Disclosure of pension information as required by GASB Statement No. 68 is included within the City of Breckenridge's financial statements.

NOTE 7 – COMMITMENTS

Wholesale Power Agreement – Under its wholesale power agreement, the City is committed to purchase its electric power and energy requirements from the Western Area Power Administration (WAPA) until December 31, 2046.

NOTE 8 – SUBSEQUENT EVENT

The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on PUC's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on PUC's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact PUC's financial condition or results of operations is uncertain.

SUPPLEMENTARY INFORMATION

**CITY OF BRECKENRIDGE, MINNESOTA
PUBLIC UTILITIES COMMISSION
STATISTICS – ELECTRIC AND WATER UTILITIES
SCHEDULE OF DEPARTMENT OPERATIONS BY UNIT
(Unaudited)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
ELECTRIC DEPARTMENT										
Kilowatt Hours Sold										
Street lights	250,521	259,957	246,054	331,280	411,624	436,490	455,773	443,991	435,750	437,282
Commercial	4,955,104	5,280,200	4,976,929	5,122,296	5,075,264	5,399,365	5,695,919	5,497,681	5,676,232	5,806,984
Industrial	9,357,350	9,958,690	10,579,490	10,412,970	10,387,641	10,894,520	11,329,120	11,228,540	11,053,350	11,860,180
Residential	13,576,323	13,654,960	12,851,215	13,081,590	13,208,287	14,009,202	14,312,442	13,386,046	14,283,083	14,087,501
Governmental sales and load management	702,964	631,312	618,115	613,521	681,058	874,904	943,272	761,523	964,806	951,153
Residential and load management	5,926,437	5,889,112	5,336,414	5,345,245	5,563,968	6,557,340	6,694,272	5,373,296	6,205,675	6,117,767
Commercial load management	<u>2,230,242</u>	<u>2,339,375</u>	<u>2,051,018</u>	<u>1,919,576</u>	<u>2,181,083</u>	<u>2,589,032</u>	<u>2,683,770</u>	<u>2,231,240</u>	<u>2,503,842</u>	<u>2,375,827</u>
TOTAL	<u>36,998,941</u>	<u>38,013,606</u>	<u>36,659,235</u>	<u>36,826,478</u>	<u>37,508,925</u>	<u>40,760,853</u>	<u>42,114,568</u>	<u>38,922,317</u>	<u>41,122,738</u>	<u>41,636,694</u>
WATER DEPARTMENT										
Gallons (in 1,000's)										
RAW WATER	<u>93,642</u>	<u>100,027</u>	<u>97,083</u>	<u>67,182</u>	<u>96,577</u>	<u>98,181</u>	<u>99,818</u>	<u>101,897</u>	<u>97,301</u>	<u>98,742</u>
FILTERED WATER	<u>108,004</u>	<u>118,057</u>	<u>117,418</u>	<u>116,821</u>	<u>116,035</u>	<u>119,416</u>	<u>120,609</u>	<u>123,445</u>	<u>118,348</u>	<u>123,321</u>
Plant and other	19,943	23,546	22,803	22,316	22,509	23,361	24,698	23,739	21,750	30,382
Consumers	<u>78,204</u>	<u>82,013</u>	<u>83,351</u>	<u>83,767</u>	<u>83,871</u>	<u>82,809</u>	<u>87,047</u>	<u>89,297</u>	<u>83,863</u>	<u>85,283</u>
TOTAL	<u>98,147</u>	<u>105,559</u>	<u>106,154</u>	<u>106,083</u>	<u>106,380</u>	<u>106,170</u>	<u>111,745</u>	<u>113,036</u>	<u>105,613</u>	<u>115,665</u>