

**CITY OF BRECKENRIDGE**  
**PRESENTATION TO THE PUBLIC**  
**UTILITIES COMMISSION**  
**Year Ended December 31, 2021**

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 of Breckenridge, Minnesota, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Breckenridge, Minnesota, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Breckenridge, Minnesota's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

### **Supplementary 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 supplementary information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Carlson AV LLP*

Fergus Falls, Minnesota  
April 14, 2022

## **BASIC FINANCIAL STATEMENTS**

**CITY OF BRECKENRIDGE, MINNESOTA**  
**PUBLIC UTILITIES COMMISSION**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**December 31, 2021**

	<b>Business-Type Activities – Enterprise Funds</b>				<b>Total</b>
	<b>Electric</b>	<b>Sewer</b>	<b>Water</b>	<b>Nonmajor Storm Sewer</b>	
<b>ASSETS</b>					
Current Assets					
Cash and investments	\$ 4,194,042	\$ 1,158,347	\$ 1,981,806	\$ 641,466	\$ 7,975,661
Accounts receivable	402,184	49,958	106,448	12,797	571,387
Inventories	249,363	-	29,254	-	278,617
Total Current Assets	<u>4,845,589</u>	<u>1,208,305</u>	<u>2,117,508</u>	<u>654,263</u>	<u>8,825,665</u>
Noncurrent Assets					
Capital assets not being depreciated	20,350	835	101,563	-	122,748
Capital assets being depreciated, net	2,412,472	2,293,092	9,432,902	92,938	14,231,404
Total Noncurrent Assets	<u>2,432,822</u>	<u>2,293,927</u>	<u>9,534,465</u>	<u>92,938</u>	<u>14,354,152</u>
Total Assets	<u>7,278,411</u>	<u>3,502,232</u>	<u>11,651,973</u>	<u>747,201</u>	<u>23,179,817</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension	155,500	29,483	117,904	-	302,887
<b>LIABILITIES</b>					
Current Liabilities					
Accounts payable	185,131	4,158	21,421	-	210,710
Accrued expenses	10,665	-	632	-	11,297
Accrued interest payable	-	5,509	16,137	-	21,646
Customer deposits	127,372	-	-	-	127,372
Compensated absences	4,199	1,884	2,527	-	8,610
Current portion of long-term debt	-	85,000	117,000	-	202,000
Total Current Liabilities	<u>327,367</u>	<u>96,551</u>	<u>157,717</u>	<u>-</u>	<u>581,635</u>
Noncurrent Liabilities					
Compensated absences	42,665	25,326	27,482	-	95,473
Bonds and loans payable, net	-	459,000	3,400,000	-	3,859,000
Net pension liability	266,849	49,298	196,208	-	512,355
Total Noncurrent Liabilities	<u>309,514</u>	<u>533,624</u>	<u>3,623,690</u>	<u>-</u>	<u>4,466,828</u>
Total Liabilities	<u>636,881</u>	<u>630,175</u>	<u>3,781,407</u>	<u>-</u>	<u>5,048,463</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension	190,923	35,463	141,511	-	367,897
<b>NET POSITION</b>					
Net investment in capital assets	2,432,822	1,749,927	6,017,465	92,938	10,293,152
Unrestricted	<u>4,173,285</u>	<u>1,116,150</u>	<u>1,829,494</u>	<u>654,263</u>	<u>7,773,192</u>
<b>TOTAL NET POSITION</b>	<u><b>\$ 6,606,107</b></u>	<u><b>\$ 2,866,077</b></u>	<u><b>\$ 7,846,959</b></u>	<u><b>\$ 747,201</b></u>	<u><b>\$ 18,066,344</b></u>

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

**CITY OF BRECKENRIDGE, MINNESOTA**  
**PUBLIC UTILITIES COMMISSION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**Year Ended December 31, 2021**

	Business-Type Activities – Enterprise Funds				Total
	Electric	Sewer	Water	Nonmajor Storm Sewer	
<b>SALES AND COST OF SALES</b>					
Sales	\$ 3,349,771	\$ -	\$ -	\$ -	\$ 3,349,771
Cost of power	(1,637,266)	-	-	-	(1,637,266)
Gross profit	1,712,505	-	-	-	1,712,505
<b>OPERATING REVENUES</b>					
Charges for services	-	400,576	1,073,959	108,906	1,583,441
<b>OPERATING EXPENSES</b>					
Distribution expense	190,380	-	318,542	-	508,922
Customer accounts	89,403	-	71,688	134	161,225
Administration and general	109,631	71,303	114,868	12,310	308,112
Salaries and wages	74,309	66,146	25,623	-	166,078
Payroll taxes	26,164	4,311	19,299	-	49,774
Pension expense	(22,804)	(11,083)	(50,528)	-	(84,415)
Employee benefits	67,989	-	82,543	-	150,532
Repairs and maintenance	133,838	-	62,762	926	197,526
Supplies	-	21,301	2,011	-	23,312
Testing	-	3,220	-	-	3,220
Depreciation	135,453	103,410	409,042	4,761	652,666
Miscellaneous	3,241	5,336	1,515	-	10,092
Total Operating Expenses	807,604	263,944	1,057,365	18,131	2,147,044
<b>OPERATING INCOME</b>	904,901	136,632	16,594	90,775	1,148,902
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Special assessments	-	-	1,021	-	1,021
Net investment earnings	(671)	(221)	(357)	(111)	(1,360)
Other income	12,277	1,326	5,092	444	19,139
Gain (loss) on disposition of assets	619	619	31,577	-	32,815
Interest expense	-	(15,901)	(39,740)	-	(55,641)
Net Nonoperating Revenues (Expenses)	12,225	(14,177)	(2,407)	333	(4,026)
<b>NET INCOME BEFORE TRANSFERS</b>	917,126	122,455	14,187	91,108	1,144,876
<b>TRANSFERS</b>					
Transfers out	(225,000)	-	-	-	(225,000)
<b>CHANGE IN NET POSITION</b>	692,126	122,455	14,187	91,108	919,876
<b>TOTAL NET POSITION – BEGINNING</b>	5,913,981	2,743,622	7,832,772	656,093	17,146,468
<b>TOTAL NET POSITION – ENDING</b>	<u>\$ 6,606,107</u>	<u>\$ 2,866,077</u>	<u>\$ 7,846,959</u>	<u>\$ 747,201</u>	<u>\$ 18,066,344</u>

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



**CITY OF BRECKENRIDGE, MINNESOTA**  
**PUBLIC UTILITIES COMMISSION**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended December 31, 2021**

	<b>Business-Type Activities – Enterprise Funds</b>				
	<b>Electric</b>	<b>Sewer</b>	<b>Water</b>	<b>Nonmajor Storm Sewer</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 3,355,931	\$ 397,804	\$ 1,069,188	\$ 108,623	\$ 4,931,546
Payments to suppliers and services provided	(2,109,590)	(92,129)	(640,243)	(13,370)	(2,855,332)
Payments to employees	(74,572)	(69,546)	(34,156)	-	(178,274)
Payments to other governmental units	(52,887)	(8,930)	(38,815)	-	(100,632)
Other receipts	12,277	1,326	5,092	444	19,139
Other payments	(3,241)	(5,336)	(1,515)	-	(10,092)
Net Cash Provided by Operating Activities	<u>1,127,918</u>	<u>223,189</u>	<u>359,551</u>	<u>95,697</u>	<u>1,806,355</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers to other funds	(225,000)	-	-	-	(225,000)
Special assessments	-	-	16,620	-	16,620
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(225,000)</u>	<u>-</u>	<u>16,620</u>	<u>-</u>	<u>(208,380)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchases of capital assets	(459,945)	(121,976)	(167,870)	-	(749,791)
Proceeds from sale of assets	619	619	31,577	-	32,815
Principal paid on capital debt	-	(82,000)	(116,000)	-	(198,000)
Interest paid on capital debt	-	(17,541)	(40,363)	-	(57,904)
Net Cash Used by Capital and Related Financing Activities	<u>(459,326)</u>	<u>(220,898)</u>	<u>(292,656)</u>	<u>-</u>	<u>(972,880)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and dividends reinvested	(671)	(221)	(357)	(111)	(1,360)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>442,921</u>	<u>2,070</u>	<u>83,158</u>	<u>95,586</u>	<u>623,735</u>
<b>CASH AND CASH EQUIVALENTS – BEGINNING</b>	<u>3,751,121</u>	<u>1,156,277</u>	<u>1,898,648</u>	<u>545,880</u>	<u>7,351,926</u>
<b>CASH AND CASH EQUIVALENTS – ENDING</b>	<u><b>\$ 4,194,042</b></u>	<u><b>\$ 1,158,347</b></u>	<u><b>\$ 1,981,806</b></u>	<u><b>\$ 641,466</b></u>	<u><b>\$ 7,975,661</b></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Operating income	\$ 904,901	\$ 136,632	\$ 16,594	\$ 90,775	\$ 1,148,902
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation expense	135,453	103,410	409,042	4,761	652,666
Other income related to operations	12,277	1,326	5,092	444	19,139
Net operating changes in					
Accounts receivable	(24,927)	(2,772)	(4,771)	(283)	(32,753)
Inventory	104,603	-	1,538	-	106,141
Deferred outflows of resources	(131,152)	(24,553)	(98,064)	-	(253,769)
Accounts payable	14,314	3,695	10,633	-	28,642
Accrued expenses	(95)	-	63	-	(32)
Customer deposits	31,087	-	-	-	31,087
Compensated absences	(263)	(3,400)	(8,533)	-	(12,196)
Net pension liability	(97,619)	(24,346)	(103,079)	-	(225,044)
Deferred inflows of resources	179,339	33,197	131,036	-	343,572
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>\$ 1,127,918</b></u>	<u><b>\$ 223,189</b></u>	<u><b>\$ 359,551</b></u>	<u><b>\$ 95,697</b></u>	<u><b>\$ 1,806,355</b></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, 2021**

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**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, 2021**

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**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, 2021**

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**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, 2021**

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**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, 2021**

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**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, 2021**

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**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, 2021**

**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, 2021 was as follows:

	<u>Balance 2020</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance 2021</u>
<b>Business-Type Activities</b>				
Capital assets not being depreciated				
Land	\$ 122,748	\$ -	\$ -	\$ 122,748
Construction in progress	121,287	-	121,287	-
Total capital assets not being depreciated	244,035	-	121,287	122,748
Capital assets being depreciated				
Buildings	8,174,536	-	-	8,174,536
Equipment	6,151,086	12,150	-	6,163,236
Infrastructure	11,055,852	858,929	-	11,914,781
	25,381,474	871,079	-	26,252,553
Accumulated depreciation for				
Buildings	(623,915)	(228,035)	-	(851,950)
Equipment	(4,001,094)	(170,302)	-	(4,171,396)
Infrastructure	(6,743,473)	(254,330)	-	(6,997,803)
	(11,368,482)	(652,667)	-	(12,021,149)
Total capital assets being depreciated, net	14,012,992	218,412	-	14,231,404
<b>TOTAL BUSINESS-TYPE ACTIVITIES, NET</b>	<u><u>\$14,257,027</u></u>	<u><u>\$ 218,412</u></u>	<u><u>\$ 121,287</u></u>	<u><u>\$14,354,152</u></u>



**CITY OF BRECKENRIDGE, MINNESOTA**  
**PUBLIC UTILITIES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2021**

**NOTE 3 – CAPITAL ASSETS** (Continued)

Depreciation expense was charged to the following functions or programs:

Electric	\$ 135,453
Sewer	103,410
Water	409,043
Storm sewer	<u>4,761</u>
<b>TOTAL</b>	<b><u>\$ 652,667</u></b>

**NOTE 4 – LONG-TERM DEBT**

The PUC's long-term debt activity for the year ended December 31, 2021 was as follows:

	<u>Balance 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 2021</u>	<u>Due Within One Year</u>
<b>Business-Type Activities</b>					
General obligations					
Bonds	\$ 626,000	\$ -	\$ 82,000	\$ 544,000	\$ 85,000
Notes	<u>3,633,000</u>	<u>-</u>	<u>116,000</u>	<u>3,517,000</u>	<u>117,000</u>
Total Bonds and Notes Payable	4,259,000	-	198,000	4,061,000	202,000
Other Liabilities					
Severance payable	116,279	57,117	69,313	104,083	8,610
Net pension liability	<u>737,399</u>	<u>-</u>	<u>225,044</u>	<u>512,355</u>	<u>-</u>
Total Other Liabilities	<u>853,678</u>	<u>57,117</u>	<u>294,357</u>	<u>616,438</u>	<u>8,610</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b><u>\$5,112,678</u></b>	<b><u>\$ 57,117</u></b>	<b><u>\$ 492,357</u></b>	<b><u>\$4,677,438</u></b>	<b><u>\$ 210,610</u></b>

**CITY OF BRECKENRIDGE, MINNESOTA  
PUBLIC UTILITIES COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2021**

**NOTE 4 – LONG-TERM DEBT** (Continued)

Details of bonds payable at December 31, 2021 are as follows:

	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance</u>
<b>Business-Type Activities</b>				
Notes				
2008 Sewer revenue	\$ 1,392,874	2027	2.80%	\$ 544,000
2017 MNPFA loan	3,983,588	2047	1.11%	<u>3,517,000</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>				<b><u><u>\$ 4,061,000</u></u></b>

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>
2022	\$ 202,000	\$ 54,316
2023	206,000	50,636
2024	209,000	46,876
2025	213,000	43,048
2026	217,000	39,126
2027 - 2031	731,000	150,836
2032 - 2036	671,000	112,078
2037 - 2041	709,000	73,962
2042 - 2046	748,000	33,730
2047	<u>155,000</u>	<u>1,722</u>
<b>TOTAL</b>	<b><u><u>\$ 4,061,000</u></u></b>	<b><u><u>\$ 606,330</u></u></b>

**CITY OF BRECKENRIDGE, MINNESOTA**  
**PUBLIC UTILITIES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2021**

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**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, 2021.

**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.

## **SUPPLEMENTARY INFORMATION**

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>ELECTRIC DEPARTMENT</b>										
Kilowatt Hours Sold										
Street lights	375,120	301,751	250,521	259,957	246,054	331,280	411,624	436,490	455,773	443,991
Commercial	4,373,490	4,591,960	4,955,104	5,280,200	4,976,929	5,122,296	5,075,264	5,399,365	5,695,919	5,497,681
Industrial	8,912,395	9,163,160	9,357,350	9,958,690	10,579,490	10,412,970	10,387,641	10,894,520	11,329,120	11,228,540
Residential	13,490,391	13,769,633	13,576,323	13,654,960	12,851,215	13,081,590	13,208,287	14,009,202	14,312,442	13,386,046
Governmental sales and load management	525,811	551,260	702,964	631,312	618,115	613,521	681,058	874,904	943,272	761,523
Residential and load management	5,267,464	5,503,266	5,926,437	5,889,112	5,336,414	5,345,245	5,563,968	6,557,340	6,694,272	5,373,296
Commercial load management	<u>1,683,231</u>	<u>1,916,570</u>	<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>
<b>TOTAL</b>	<b><u>34,627,902</u></b>	<b><u>35,797,600</u></b>	<b><u>36,998,941</u></b>	<b><u>38,013,606</u></b>	<b><u>36,659,235</u></b>	<b><u>36,826,478</u></b>	<b><u>37,508,925</u></b>	<b><u>40,760,853</u></b>	<b><u>42,114,568</u></b>	<b><u>38,922,317</u></b>
<b>WATER DEPARTMENT</b>										
Gallons (in 1,000's)										
<b>RAW WATER</b>	<b><u>100,763</u></b>	<b><u>101,998</u></b>	<b><u>93,642</u></b>	<b><u>100,027</u></b>	<b><u>97,083</u></b>	<b><u>97,182</u></b>	<b><u>96,577</u></b>	<b><u>98,181</u></b>	<b><u>99,818</u></b>	<b><u>101,897</u></b>
<b>FILTERED WATER</b>	<b><u>104,332</u></b>	<b><u>106,892</u></b>	<b><u>108,004</u></b>	<b><u>118,057</u></b>	<b><u>117,418</u></b>	<b><u>116,821</u></b>	<b><u>116,035</u></b>	<b><u>119,416</u></b>	<b><u>120,609</u></b>	<b><u>123,445</u></b>
Plant and other	1,250	1,250	19,943	23,546	22,803	22,316	22,509	23,361	24,698	23,739
Consumers	<u>81,230</u>	<u>77,190</u>	<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>
<b>TOTAL</b>	<b><u>82,480</u></b>	<b><u>78,440</u></b>	<b><u>98,147</u></b>	<b><u>105,559</u></b>	<b><u>106,154</u></b>	<b><u>106,083</u></b>	<b><u>106,380</u></b>	<b><u>106,170</u></b>	<b><u>111,745</u></b>	<b><u>113,036</u></b>