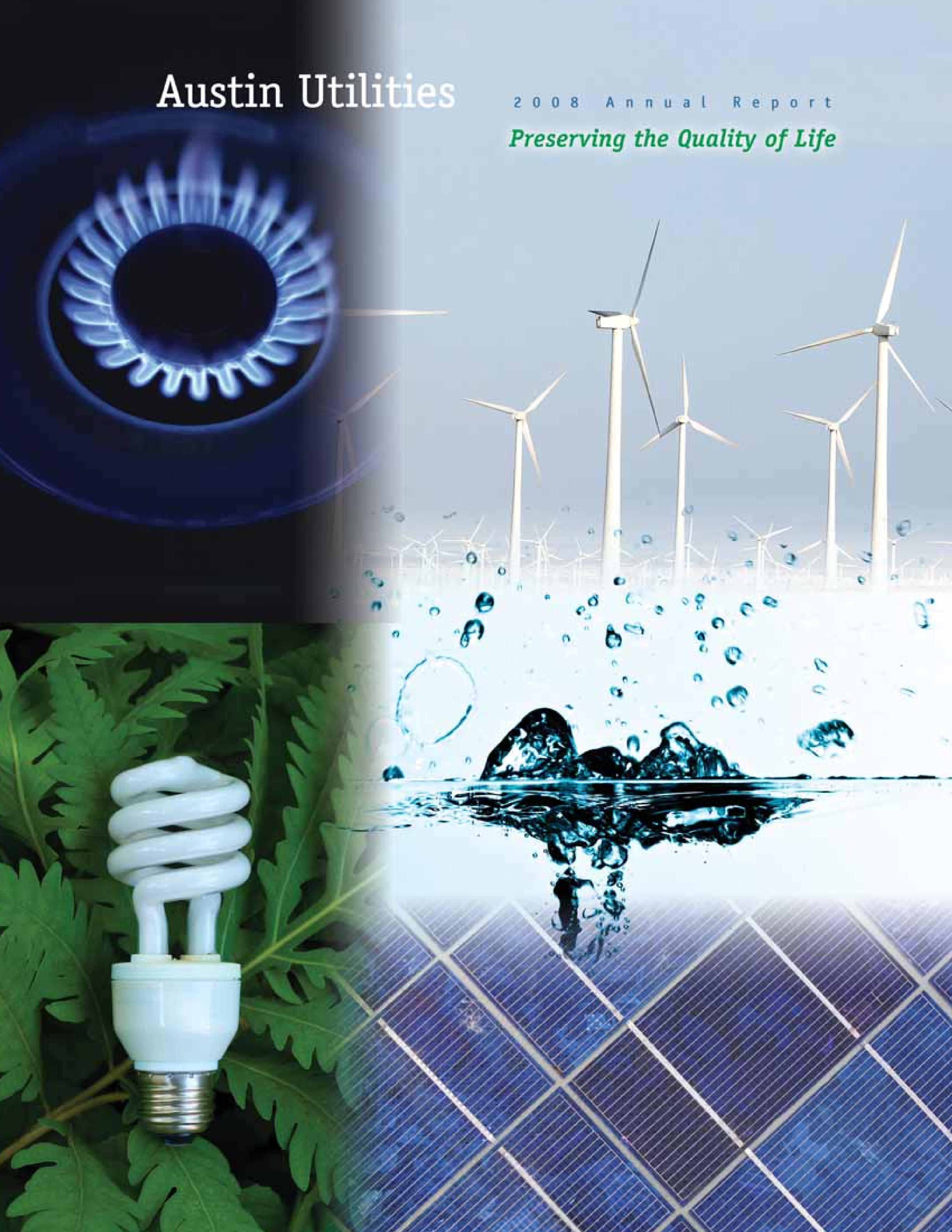
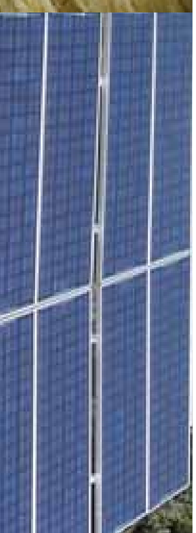
Austin Utilities

2008 Annual Report

Preserving the Quality of Life









Message from the President:

The Austin Utilities Board of Commissioners was elected by you, our customers/owners, to govern Austin Utilities. Whereas the essential mission of the Utilities to approve the budget and establish electric, water and natural gas rates, the implementation of this mission involves much more, as shown by the activities of Austin Utilities in the year 2008.

In 2008, one of our central focuses was conservation. In September, Austin Utilities partnered with other collaborators, including Riverland Community College, Owatonna Public Utilities, Friends of the J.C. Hormel Nature Center, and CERT (Clean Energy Resource Teams) to host RE•fest. RE•fest hosted many exhibitors with eco-friendly products, and held workshops on recycling, energy conservation and renewable energy sources. A Solar Stage provided entertainment powered by the sun, and a bookstore featured materials on green living.

A review of our website located at www.austinutilities.com shows a plethora of other conservation-minded efforts. Through the links in our website, customers can obtain energy savings brochures and tips, and enter into rebate programs for the purchase of energy efficient appliances, building materials and equipment. Customers may obtain an energy audit to maximize energy efficiency for their home or business, and calculate their carbon footprint.

Many other conservation programs are offered for residential and business customers, including the *Solar Choice* program, which assists customers in implementing solar energy in their home or business. As equipment to harness the energy of the sun continues to become more affordable, solar power is quickly becoming a renewable favorite. A program called *Partners in Planting* teams with local nurseries to offer rebates for the purchase of deciduous shade trees.

New legislation makes it mandatory for utilities to show a 1.5% decrease in energy consumption. Austin Utilities has recently teamed with Owatonna Public Utilities and a group called *Positive Energy* to implement a ground-breaking new program to help homeowners save energy and money by better understanding their energy usage. Residential Customers will soon see a home energy report providing a neighbor-to-neighbor comparison of energy usage. Studies have shown that the neighbor-to-neighbor comparison is the single most effective piece of information to motivate homeowners to be aware of and reduce their energy usage.

On behalf of the Board, we look forward to watching how these strategies affect energy usage, with the ultimate goal of keeping rates low.

Thomas C. Baudler – 2008 President
Austin Utilities Board of Commissioners

(standing) Commissioner Larry Pfeil
President Thomas C. Baudler
Commissioner Paul Johnson
(seated) Commissioner Ron Felten
Commisioner Jeanne Sheehan



Message from the General Manager:


Jerry McCarthy, General Manager

Austin Utilities citizens have high expectations for their local utility. In addition to offering utility products and services in a safe, reliable and responsible manner, they want to know that the quality of life in our community is being preserved for their children and grandchildren.

Our support for energy conservation has been demonstrated by our continuing efforts to meet state energy conservation mandates. We do this through developing and implementing Conservation Programs. After all, helping our customers improve their efficiency helps the environment, helps us to defer the need to invest in generating facilities and helps consumers manage their energy bill.

Our Energy Services department believes that being environmentally focused goes beyond complying with regulations. It means managing our operations in a way that helps protect our air, water, land and natural resources now and for future generations. It also means partnering with other organizations and agencies to find solutions to environmental issues in our community.

Our 2008 Annual Report will introduce our Energy Services Department, highlight our 2008 conservation accomplishments and provide you a brief glance looking forward in 2009.

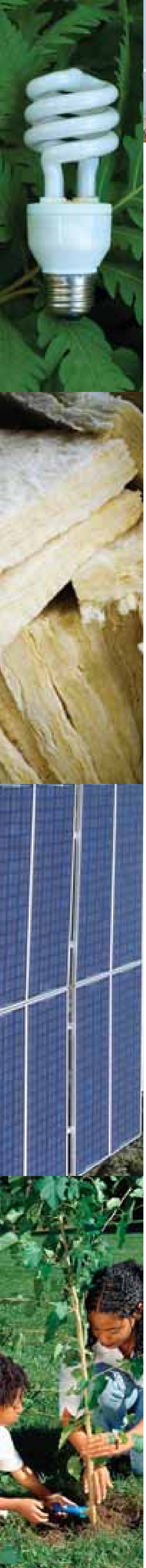
Leadership:


Tom Tylutki,
Electric Distribution
Director


Patrick Lunn,
Power & Water
Production Director,
2000–2009


Kim Duncomb,
Support Services
Director


Todd Jorgenson,
Gas/Water/Engineering
Operations Director



Energy Services

Kelly Lady
Energy Services Consultant

Kelly Lady is Austin Utilities' Energy Services Consultant. She has been an employee of Austin Utilities for 15 years, moving to the Energy Services Department in 2000. She has been instrumental in the development of our Conserve & Save branding that promotes the many rebate programs used by our customers today.

Kelly coordinates and manages conservation activities relating to residential, commercial, and industrial customers. She is responsible for promoting Austin Utilities programs ensuring they are accessible and meet the needs of our customers.

Over the years, Kelly has worked closely with many of our largest customers to assist them in implementing energy saving projects that will help them save energy and money. Recently, she is seeing a strong interest in renewable energy projects and has worked with several local businesses on their solar and wind installations.

Dave Thompson
Residential Account Representative

Dave joined Austin Utilities in July 2008 and is responsible for the development and delivery of energy efficiency programs to residential customers. You may have talked to him on the phone or seen him out and about promoting the many offerings of Conserve & Save rebates, residential energy audits, and energy conservation. He was so impressed with the audit process and the opportunities for energy savings, he enrolled in the Dunwoody Residential Energy Auditors course for 2009.

Dave admits that prior to accepting the position with Austin Utilities he took energy for granted and now knows the importance of conservation and sees energy in a whole new light. (A CFL, that is.) Although his primary focus is serving the residential customers of Austin Utilities, Dave has the opportunity to work with Kelly, learning about our commercial and industrial customers, their requirements and programs.

The opportunity to work in such a dynamic field and working with the public is what drew him to Austin Utilities. His background in customer service and sales proves to be an asset while adjusting to his new role.

CONSERVE & $AVE

Just the Facts... 2008 Review:

We are very proud to share our 2008 accomplishments with you. Rebates for Residential, Commercial and Industrial Customers was significant and would not happen without your continued effort.

Residential Rebates:

In 2008 we processed 1828 residential rebates and paid customers $127,599 to install energy efficient appliances and equipment in their homes.

Commercial Rebates:

In 2008 we processed 52 commercial and industrial rebates and paid customers $37,784 to make energy efficient improvements to their businesses.

Residential Appliance Energy Savings:

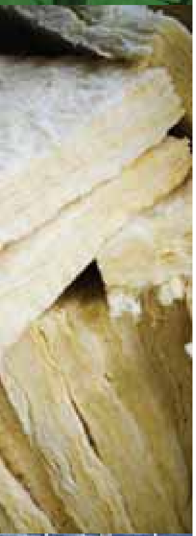
kW	379
kWh	576,358
Gallons of water	1,575,950
CCF of gas	50,872

Commercial and Industrial Energy Savings:

kW	210
kWh	872,594
CCF of gas	19,528

In 2008 we also accomplished the following:

- Launched Window rebate program Fall 2008
- Distributed over 750 CFL's to our customers and recycled 275
- Sponsored RE•fest 2008
- Various Public Appearances
- Building Operators Certification Training Level I Cohort 3 Seminar
- Participated in Austin's Community Education
- Performed 75 Residential and 9 Commercial Energy Audits
- Rolled out the Green Scene




Conservation + You:

It all started in the beginning as most things do! Imaging a small group of people all wanting to do something big for our community, something that people would speak of for years to come.

RE • fest

A Celebration of Green Living & Clean Energy

RE • think RE • new RE • store

Something big did happen in 2008,

Really **Big**.

In an effort to generate interest about energy conservation and the positive changes we can make in our communities, this core group of dedicated individuals came together to discuss ways they could make a difference. A number of years ago this might have gone by the wayside and their ideas overlooked, but this persistent bunch saw the value of why making positive changes for our community and environment is so important. They developed into a highly organized unit, meeting to discuss activities, workshops, food, vendors, location, logistics, financing and more. Things started coming together as the team sought sponsors, volunteers, exhibitors, advertisers and the like.

Thus RE•fest was born, A Celebration of Green Living & Clean Energy. An opportunity to learn how to take action to conserve Earth's limited resources and make positive changes in the community. This event delivered on it's promises to empower it's visitors with knowledge and know-how via workshops, exhibits and displays. This chance to explore new sources of energy for home and business, new ways to build energy efficiency into your home, transportation and buying habits teaches us to step more lightly on our planet while keeping more green in your wallet.

Riverland Community College played host, admission was Free and it was a beautiful day for RE•fest. Whether you took in a workshop, visited with Exhibitors & Artisans, enjoyed the Food & Entertainment, or simply took in the event in it's entirety, there was plenty to do. The key-note speaker was Tim Penny from Southern Minnesota Initiative Foundation. He discussed efforts to move the Southern Minnesota region towards renewable energy.

The RE•fest Collaborators included:

• Austin Utilities & Owatonna Public Utilities
Kelly Lady (AU) | 507.433.8886
Roger Warehime (OPU) | 507.451.2480

• CERTs (Clean Energy Resource Teams)
Susan Waughtal | 507.252.9639

• Friends of the J.C. Hormel Nature Center
Austin Parks and Recreation
Larry Dolphin | 507.437.7519

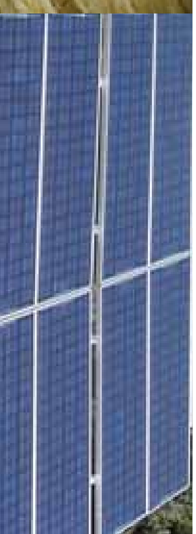
• Riverland Community College
Dani Heiny | 507.433.0517
Steve Vietor | 507.379.3359

The collaborators, along with over 100 volunteers, certainly delivered on their promise to motivate the over 1600 attendees to RE•think, RE•new, and RE•store for the good of their home — the planet earth.

"It certainly is an event that we plan to continue" was the consensus of the group.

The seed has been planted, Let's watch it Grow!







Conservation Improvement Program – Current and The Plan:

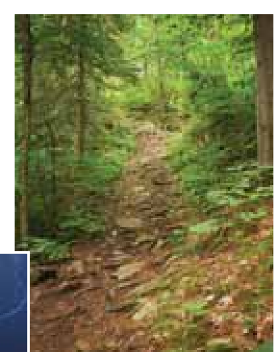
Then...

The Minnesota Conservation Improvement Program (CIP), first enacted by the Minnesota Legislature in 1982, requires Minnesota natural gas and electric utilities to invest a portion of their revenues in energy efficiency and conservation programs. These programs are intended to provide incentives to consumers and businesses for saving energy through the purchase of energy efficient equipment and/or changing behaviors related to energy consumption. Typical conservation improvement programs include furnace rebates, lighting rebates, and building design assistance. Utility CIPs are funded through surcharges added to the electric and natural gas rates charged to utility customers. The Office of Energy Security (OES) in the Minnesota Department of Commerce provides regulatory oversight over use of CIP funds.

Fast forward to the 2007 Minnesota legislative session, where The Next Generation Energy Act was passed, significantly changing CIP. The most significant change was the addition of the 1.5 percent savings goal for all utilities, which changed the focus of CIP compliance from meeting spending requirements to meeting a savings goal.

Previously the law required that each natural gas and electric utility spend 0.5 percent or 1.5 percent of gross operating revenues (GOR) annually, respectively, on their CIPs. The revised statute added an energy savings goal for each utility equal to 1.5 percent of its average annual retail energy sales in Minnesota, excluding sales to certain facilities that have been granted exemption from CIP charges by the Commissioner of Commerce. The CIP savings goal is related to the broader state goal of reducing per capita fossil fuel use by 15 percent by 2015, and is ultimately an integral part of any effort to reduce statewide CO2 emissions.



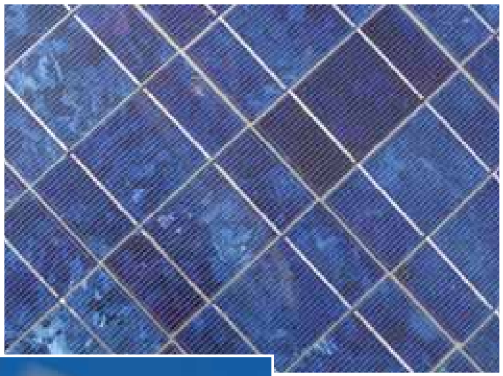
Conservation Improvement Program – Goals:

Now…

The Goals of utilities conservation improvement programs are to:

- Promote consumer and industry awareness of energy conservation and it’s positive effect on the environment.
- Reduce energy consumption in homes and businesses.
- Generate innovations in developing energy efficient products and technologies.
- Promote new energy resource development.

Although Austin Utilities has energy saving opportunities in place through our Conserve & Save brand with our Triad group which consists of Owatonna Public Utilities, Rochester Public Utilities and Austin Utilities, we will need to develop a more comprehensive conservation plan to achieve the upcoming goal. That is to offer a variety of energy-saving opportunities to our business and residential customers similar to our current offerings of ENERGY STAR appliances or compact fluorescent light bulbs that require less energy to provide the same level of energy services as standard equipment.



Austin Utilities Energy Service personnel continue working on cost-effective projects that reach a broad spectrum of our customers including residential, commercial, industrial, and special projects that specifically meet the needs of low-income customers. The challenge ahead has certainly generated some creative thinking. Creative thinking that will require positive synergies via outreach, partnerships, changing our perceptions in the way we use energy. We will be working hard in 2009 to develop programs to add to our array of energy savings opportunities already in place. So look forward to some great programs coming your way!

Independent Auditors' Report

Board of Commissioners, Austin Utilities
Austin, Minnesota

We have audited the accompanying basic financial statements of Austin Utilities, enterprise fund of the City of Austin, State of Minnesota, as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Austin Utilities, an enterprise fund of the City of Austin, State of Minnesota, as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in the notes to the financial statements, Austin Utilities adopted the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as of and for the year ended December 31, 2008. This statement results in the Utilities reporting a liability for postemployment benefits other than pensions that the Utilities provides to its employees and retirees.

The management's discussion and analysis and the Schedule of Funding Progress for Postemployment Benefit Plan on pages 3 through 12 and 31 respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

LarsonAllen LLP
Austin, Minnesota
March 3, 2009

Austin Utilities Management's Discussion and Analysis

FINANCIAL STATEMENTS OVERVIEW

This discussion and analysis of Austin Utilities' performance provides an overview of the utilities' activities for the years ended December 31, 2008 and 2007. The information presented should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

Austin Utilities follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principals generally accepted in the United States of America. The financial statements include the balance sheet, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows.

The balance sheet provides information about the nature of assets and obligations (liabilities) of Austin Utilities as of the end of the year. The statement of revenues, expenses and changes in net assets reports revenues and expenses for each utility for the current year. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, non-capital related, capital and related financing activities, and investing activities.

FINANCIAL HIGHLIGHTS

- The net assets of Austin Utilities exceeded liabilities at the close of 2008 in the amount of $50,001,159 (Net Assets). This is an increase of $1,174,328 over net assets at the close of 2007.
- By far the largest portion of Austin Utilities net assets (66 percent) reflects its investment in capital assets (e.g. buildings, structures and improvements, generating plant equipment, station equipment, distribution lines and distribution mains, meters, furniture and equipment, transportation equipment, power operated equipment, and communication equipment), less the related debt used to acquire those assets that is still outstanding. Austin Utilities uses the capital assets to provide services to our customers: consequently, these assets are not available for future spending.
- Operations provided sufficient cash flows to cover plant needs as capital expenditures for 2008 were $3,637,880. The electric department had capital expenditures of $981,192 which included $929,226 for substation improvements, line transformers, developments, line extensions and conversions. The water department had capital expenditures of $914,112 which included $673,234 for main extensions and replacements. The water department installed over 11,880 feet of new water main during 2008. The gas department had capital expenditures of $378,949. The gas department installed over 12,248 feet of new gas main and had 27 new services in 2008. General Plant capital expenditures were $1,363,627 in 2008.

The following table summarizes the financial position of Austin Utilities as of December 31:

CONDENSED BALANCE SHEETS

	2008	2007	2006
Capital Assets, Net	$33,300,338	$31,737,814	$30,951,761
Current Assets	12,478,241	13,087,259	11,109,612
Noncurrent Assets	13,884,609	13,671,527	13,445,964
Deferred Expenses	361,405	403,359	448,713
Total Assets	$60,024,593	$58,899,959	$55,956,050
Current Liabilities	$6,898,648	$7,280,424	$5,978,221
Operating Reserves	2,019,704	1,916,744	2,155,441
Long-Term Liabilities:			
Long-Term Debt	315,000	465,000	605,000
OPEB Liability	341,319	—	—
Deferred Credits	448,763	410,960	400,310
Total Liabilities	10,023,434	10,073,128	9,138,972
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	32,867,775	31,166,784	30,247,264
Restristed	135,000	135,211	132,975
Unrestricted	16,998,384	17,524,836	16,436,839
Total Net Assets	50,001,159	48,826,831	46,817,078
Total Net Assets and Liabilities	$60,024,593	$58,899,959	$55,956,050

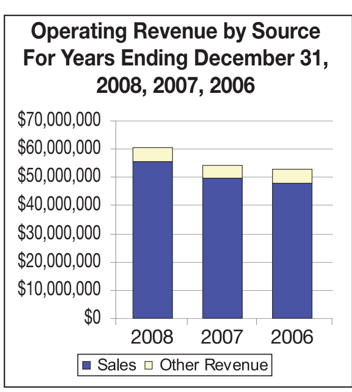
Condensed balance sheet highlights are as follows for the year ended December 31, 2008:

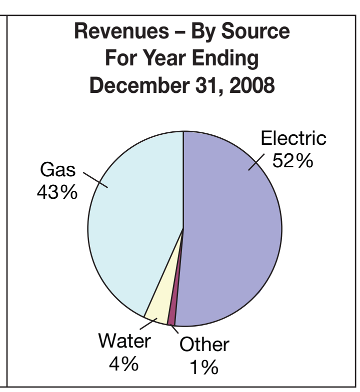
- Current assets decreased $609,018. Current asset consist of cash and working funds, temporary investments (maturities of one year or less), accounts receivable, inventories, and prepayments.
- Non-current assets increased during 2008 in the amount of $213,082. The increase was due to the increase in the fair market values of investments with maturities greater than one year and the increase in the health insurance fund.

- Deferred expenses decreased $41,954. Prepaid expenditures within this classification include preliminary survey and investigation charges, unamortized debt issuance costs, deferred water assessments, and expenditures for water tower maintenance. Amortization of the debt issuance costs of $4,231 and the water tower maintenance of $33,516, along with payments of deferred assessments of $4,207 accounted for this decrease.
- Current liabilities decreased $40,457 at the end of 2008.
- Operating reserves, which include liabilities for employee sick pay benefits and health insurance, increased $102,960. Operating reserves were $2,019,704 at December 31, 2008.
- Deferred credits increased $37,803 at the end of 2008. Deferred credits consist of unearned revenue from the Southern Minnesota Municipal Power Agency (SMMPA) for future expenditures for the operation of the Northeast Power Plant and the Downtown Power Plant.
- Net assets invested in capital assets, net of related debt increased $1,700,991. This increase is the result of investment in plant exceeding retirements and depreciation in the amount of $1,560,991 and the retirement of long term debt in the amount of $140,000. See Note 2 to the financial statements for more details related to changes in utility plant.
- Unrestricted net assets decreased $526,452 during 2008.

Condensed balance sheet highlights are as follows for the year ended December 31, 2007:
- Current assets increased $1,977,647. Current asset consist of cash and working funds, temporary investments (maturities of one year or less), accounts receivable, inventories, and prepayments.
- Non-current assets increased during 2007 in the amount of $225,563. The increase was due to the increase in the fair market values of investments with maturities greater than one year.
- Deferred expenses decreased $45,354. Prepaid expenditures within this classification include preliminary survey and investigation charges, unamortized debt issuance costs, deferred water assessments, and expenditures for water tower maintenance. Amortization of the debt issuance costs of $4,231 and the water tower maintenance of $33,516, along with payments of deferred assessments of $7,607 accounted for this decrease.
- Current liabilities increased $1,302,203 at the end of 2007. This increase was the result of additional accounts payable at December 31, which was attributable to higher purchase power prices and higher natural gas sales in December.
- Operating reserves, which include liabilities for employee sick pay benefits and health insurance, decreased $238,697. Operating reserves were $1,916,744 at December 31, 2007.
- Deferred credits increased $10,650 at the end of 2007. Deferred credits consist of unearned revenue from the Southern Minnesota Municipal Power Agency (SMMPA) for future expenditures for the operation of the Northeast Power Plant and the Downtown Power Plant.
- Net assets invested in capital assets, net of related debt increased $919,520. This increase is the result of investment in plant exceeding retirements and depreciation in the amount of $784,520 and the retirement of long term debt in the amount of $135,000. See Note 2 to the financial statements for more details related to changes in utility plant.
- Unrestricted net assets increased $1,087,997 during 2007.

The following charts summarize operating revenue and source by utility along with the composition of combined utility revenue by source:





The following table summarizes revenues, expenses, and changes in net assets of Austin Utilities for the years ended December 31, 2008, 2007, and 2006:

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2008	2007	2006
ELECTRIC			
Operating Revenues, Electric Sales	$26,966,674	$25,176,037	$23,282,263
Other Electric Operating Revenues	4,744,988	4,588,597	4,651,836
Total Electric Operating Revenues	31,711,662	29,764,634	27,934,099
Operating Expenses	31,549,451	29,649,740	28,166,123
Total Electric Operating Income	162,211	114,894	(232,024)
Other Electric Income	368,257	558,834	382,295
Interest Expense, Net	(33,693)	(40,611)	(39,851)
Change in Net Assets, Electric	496,775	633,117	110,420
WATER			
Operating Revenues, Water Sales	2,365,328	2,472,601	2,209,129
Other Water Operating Revenues	63,440	80,306	75,501
Total Water Operating Revenues	2,428,768	2,552,907	2,284,630
Operating Expenses	2,588,274	2,348,141	1,976,787
Total Water Operating Income	(159,506)	204,766	307,843
Other Water Income	138,166	206,525	142,656
Change in Net Assets, Water	(21,340)	411,291	450,499
GAS			
Operating Revenues, Gas Sales	26,703,390	22,371,451	22,382,550
Other Gas Operating Revenues	89,382	98,687	92,399
Total Gas Operating Revenues	26,792,772	22,470,138	22,474,949
Operating Expenses	26,384,800	21,945,740	20,687,528
Total Gas Operating Income	407,972	524,398	1,787,421
Other Gas Income	297,691	449,497	307,497
Interest Expense, Net	(6,770)	(8,550)	(3,092)
Change in Net Assets, Gas	689,893	965,345	2,091,826
Total Change in Net Assets	$1,174,328	$2,009,753	$2,652,745
Beginning Net Assets	$48,826,831	$46,817,078	$44,164,333
Change in Net Assets	1,174,328	2,009,753	2,652,745
Ending Net Assets	$50,001,159	$48,826,831	$46,817,078

Condensed Statements of revenues, expenses, and changes in net assets highlights are as follows:

ELECTRIC

2008 Compared to 2007
- Revenue from electric sales increased in the amount of $1,790,637. Other electric operating revenue increased $156,391. A purchased cost adjustment (PCA) implemented in January 2008 accounted for $1,695,633 of additional revenue, which was necessary to recover the increased purchased power costs in 2008 from our wholesale supplier, Southern Minnesota Municipal Power Agency (SMMPA) as well as increased operating and maintenance costs. Sales by volume increased .85 percent in 2008. The bulk of the increase in other electric revenues was due to the increase in the Revenue from Capacity Purchase agreement with SMMPA which relates to increased generation expenses in 2008.
- Operating expenses increased $1,899,712 in 2008. Power supply expenses increased $675,913 due to increased purchased power costs. Steam power generation expenses increased $453,617 due to increased operating costs of the electric plant. Distribution expenditures increased $193,481 as more time was spent on maintenance of the infrastructure. Other operating expenses increased $589,434.
- Other electric income decreased $190,577. A decrease in interest income on the utilities investments accounted for this decrease.
- Interest expense decreased $6,918. Interest expense on the electric revenue bonds decreased $5,138 due to the reduction of long term debt on electric revenue bonds in the amount of $140,000; whereas interest expense paid on customer deposits decreased $1,780 in 2008.

2007 Compared to 2006
- Revenue from electric sales increased in the amount of $1,893,774. Other electric operating revenue decreased $63,239. An electric rate increase

implemented in July 2006, accounted for $1,637,447 of additional sales, which was necessary to recover the $1,911,328 of additional purchased power costs in 2007 from our wholesale supplier, Southern Minnesota Municipal Power Agency (SMMPA). Sales by volume only increased 1.03 percent in 2007. The bulk of the decrease in other electric revenues was due to the decrease in the Revenue from Capacity Purchase agreement with SMMPA which relates to reduced generation expenses in 2007.

- Operating expenses increased $1,483,617 in 2007. Power supply expenses increased $1,888,492 due to increased purchased power costs. Steam power generation expenses decreased $186,777 due to reduced operating costs of the electric plant. Distribution expenditures decreased $4,246 as more time was spent on capital additions to the infrastructure and less on maintenance. Other operating expenses decreased $213,852.
- Other electric income increased $176,539. Additional interest income on the utilities investments accounted for this increase.
- Interest expense increased $760. Interest expense on the electric revenue bonds decreased $4,698 due to the reduction of long term debt on electric revenue bonds in the amount of $135,000; whereas interest expense paid on customer deposits increased $5,458 in 2007.

WATER

2008 Compared to 2007

- Revenue from the sale of water decreased $107,273. Other water revenue decreased in the amount of $16,866. Sales of water by volume decreased 11.46% due to the decreased usage by customers. The bulk of the decrease in other water revenues was due to the decreased number of water taps in 2008.
- Operating expenses increased $240,133. Water production increased due to higher chemical costs and maintenance at several pump houses. Distribution expenses increased as a result of increased maintenance costs in both distribution services and mains. In 2008, 27 water service lines were repaired or replaced compared to 30 services in 2007. The department also replaced and reconnected 242 existing water service lines in 2008 during water main replacement projects compared to 98 in 2007. There were 26 water main breaks repaired in 2008 compared to 28 water main breaks in 2007. Other operating expenses increased $5,635.
- Other water income decreased $68,359. This decrease was the result of the lower interest rates earned on the utility investments in 2008.

2007 Compared to 2006

- Revenue from the sale of water increased $263,472. Other water revenue increased in the amount of $4,805. The rate increase implemented in July 2006 accounted for $220,801 of additional sales. Sales of water by volume increased $42,671 due to the increased usage by customers. The bulk of the increase in other water revenues was due to the increased projects completed for outside contractors in 2007.
- Operating expenses increased $371,354. Water treatment expense increased due to the additional volume of water being sold, and the higher chemical costs in 2007. Distribution expenses increased as a result of increased maintenance costs in both distribution mains and services. In 2007 30 water service lines were repaired or replaced compared to 19 services in 2006. There were 28 water main breaks repaired in 2007 compared to 14 water main breaks in 2006. Other operating expenses increased $128,333.
- Other water income increased $63,869. This increase was the result of the higher interest rates earned on the utility investments in 2007.

GAS

2008 Compared to 2007

- Revenue from the sale of natural gas increased $4,331,939 in 2008. The increase is due to the volume of gas sold in 2008. Other gas revenues decreased in the amount of $9,305. Sales of gas by volume increased 10.5 percent in 2008. This increased revenue by $2,437,833. The change in revenue due to price increased sales by $1,894,106 in 2008.
- Operating expenses increased $4,439,060 in 2008. The price of natural gas purchased in 2008 was 7.8 percent higher than 2007 which accounted for $3,897,736 of additional expenses. Distribution expenses increased $113,149 as more maintenance was completed in 2008 on meters and house regulators as well as increased customer installation expenses. Other operating expenses increased $428,175 in 2008.
- Other gas income decreased $151,806. This decrease was the result of lower interest rates earned on the utilities investments in 2008.

2007 Compared to 2006

- Revenue from the sale of natural gas decreased $11,099 in 2007. Other gas revenues increased in the amount of $6,288. Sales of gas by volume decreased 4.3 percent in 2007, since it was a milder winter. This reduced revenue by $898,144. The change in revenue due to price induced sales by $887,046 in 2007.
- Operating expenses increased $1,258,212 in 2007. The price of natural gas purchased in 2007 was 6.6 percent higher than 2006 which accounted for $1,318,559 of additional expenses. Distribution expenses decreased $99,122 as less maintenance was completed in 2007 on meters and house regulators as well as regulating station equipment. Other operating expenses increased $38,776 in 2007.
- Other gas income increased $142,000. This increase was the result of higher interest rates earned on the utilities investments in 2007.

COMBINED UTILITIES

2008 Compared to 2007

- The total change in net assets in 2008 was an increase in the amount of $1,174,328 as compared to an increase of $2,009,753 in 2007. The 2008 increase is the result of combined operating income in the amount of $410,677 and other income in the amount of $801,114, and was reduced by interest expense in the amount of $40,463.

2007 Compared to 2006

- The total change in net assets in 2007 was an increase in the amount of $2,009,753 as compared to an increase of $2,652,745 in 2006. The 2007 increase is the result of combined operating income in the amount of $844,058 and other income in the amount of $1,214,856, and was reduced by interest expense in the amount of $49,161.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

- The Utilities investment in capital assets as of December 31, 2008 amounts to $33,300,338 (net of accumulated depreciation). This investment in capital assets includes land and land rights and utility plant in service. In the electric utility the most significant increases occurred in line extensions, developments and conversions. In the water and gas utilities the most significant increases occurred in the infrastructure installation of mains and services.

AUSTIN UTILITIES CAPITAL ASSETS (net of depreciation)

	2008	2007	Dollar Change
Land and Land Rights	$363,956	$363,956	$ 0
Electric Plant in Service	13,775,382	13,786,699	(11,317)
Water Plant in Service	7,582,049	6,870,587	711,462
Gas Plant in Service	6,820,671	6,742,945	77,726
General Plant in Service	4,758,280	3,973,627	784,653
	$33,300,338	$31,737,814	$1,562,524

	2007	2006	Dollar Change
Land and Land Rights	$363,956	$363,956	$ 0
Electric Plant in Service	13,786,699	13,238,923	547,776
Water Plant in Service	6,870,587	6,483,819	386,768
Gas Plant in Service	6,742,945	6,658,506	84,439
General Plant in Service	3,973,627	4,206,557	(232,930)
	$31,737,814	$30,951,761	$786,053

See Note 2 to the financial statements for more details related to changes in utility plant.

Long-Term Debt:

- In 2008 long term debt decreased in the amount of $140,000 for a substation financing in 2001, and stood at $465,000 at December 31, 2008. In 2007 long term debt decreased in the amount of $135,000 and stood at $605,000 at December 31, 2007. See Note 7 to the financial statements for more details related to changes in debt.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Economic factors that Austin Utilities is currently facing and which could have an impact on our rates are the current Co2 legislation, the Renewable Energy Standard and coal costs.

Austin Utilities is currently undergoing an electric, gas and water cost of service and unbundled rate study. On November 18, 2008, the Austin Utilities Board of Commissioners approved the 2009 budget. The electric budget included a purchased cost adjustment (pca) for 2009. The gas budget also included a purchase gas adjustment that will be monitored throughout 2009. Utility rates may be adjusted in 2009 based on the recommendations provided by the independent consultant, once the rate study is complete.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Austin Utilities, City of Austin, Minnesota's finances for all those expressing an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Manager, 400 4th Street NE, Austin, Minnesota 55912.

Balance Sheets

ASSETS	Year Ended December 31 2008	2007
UTILITY PLANT		
Plant in Service	$78,572,810	$75,317,711
Less Accumulated Depreciation	(45,272,472)	(43,579,897)
Net Utility Plant	33,300,338	31,737,814
OTHER PROPERTY AND INVESTMENTS		
Non-Utility Property (Net on Accumulated Depreciation)	32,437	33,970
Partnering in Energy Solution Loan	10,393	—
Special Funds	4,674,961	4,434,472
Bond Funds	135,000	135,211
Other Investments	9,031,818	9,067,874
Total Other Property and Investments	13,884,609	13,671,527
CURRENT ASSETS		
Cash and Cash Equivalents	7,308,333	7,404,941
Accounts Receivable (Less Allowance for Uncollectible Accounts of $200,000 in 2008 and $100,000 in 2007)	3,181,900	3,316,043
Partnering in Energy Loan Receivable (Less Allowance for Uncollectible Accounts of $0 in 2008 and 2007)	10,393	—
Other Accounts Receivable (Less Allowance for Uncollectible Accounts of $2,000 in 2008 and 2007)	197,939	607,165
Inventories	1,554,827	1,510,695
Prepaid Expenses	224,849	248,415
Total Current Assets	12,478,241	13,087,259
DEFERRED CHARGES	361,405	403,359
Total Assets	$60,024,593	$58,899,959
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in Utility and Non-Utility Plant, net of related debt	$32,867,775	$31,166,784
Restricted for Bond Sinking Fund	135,000	135,211
Unrestricted	16,998,384	17,524,836
Net Assets	50,001,159	48,826,831
LONG-TERM LIABILITIES		
Bonds Payable	315,000	465,000
Other Postemployment Benefits Payable	341,319	—
Total Long-Term Liabilities	656,319	465,000
OPERATING RESERVES	2,019,704	1,916,744
CURRENT LIABILITIES		
Accounts Payable	5,312,149	5,424,893
Accrued Expenses	952,473	987,340
Current Portion of Bonds Payable	150,000	140,000
Other Current Liabilities	484,026	728,191
Total Current Liabilities	6,898,648	7,280,424
DEFERRED CREDITS		
Unearned Revenue	448,763	410,960
Total Net Assets and Liabilities	$60,024,593	$58,899,959

See accompanying notes to Basic Financial Statements.

Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended December 31 2008	2007
OPERATING REVENUES		
Sales	$56,035,392	$50,020,089
Forfeited Discounts	238,528	239,813
Other Operating Revenues	4,659,282	4,527,777
Total Operating Revenues	60,933,202	54,787,679
OPERATING EXPENSES		
Purchases	42,944,492	38,370,843
Production	4,780,878	4,242,094
Distribution	4,234,467	3,791,240
Other Operating Expenses	8,562,687	7,539,444
Total Operating Expenses	60,522,524	53,943,621
OPERATING INCOME	410,678	844,058
OTHER REVENUES (EXPENSES)		
Disaster Payments or Grants	18,955	—
Investment Income	780,693	1,214,856
Interest Expense	(36,232)	(44,930)
Other Expenses	(4,231)	(4,231)
Gain (Loss) on Disposal of Property	4,466	—
Total Other Revenues	763,651	1,165,695
CHANGE IN NET ASSETS	1,174,329	2,009,753
NET ASSETS, BEGINNING	48,826,831	46,817,078
NET ASSETS, ENDING	$50,001,160	$48,826,831

See accompanying notes to Basic Financial Statements.

Statements of Cash Flows

	Year Ended December 31 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	$56,478,699	$50,530,422
Cash Received From Others	5,191,218	4,156,721
Cash Paid to Suppliers	(50,585,034)	(42,459,049)
Cash Paid to Employees	(6,325,110)	(6,888,280)
Payments in Lieu of Property Taxes	(1,618,877)	(1,595,268)
Net Cash Provided by Operating Activities	3,140,896	3,744,546
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Interest Paid on Customer Deposits	(16,405)	(10,427)
Proceeds from Disaster Payments	15,794	—
Net Cash Used by Non-Capital Financing Activities	(611)	(10,427)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction and Acquisition of Plant	(3,637,880)	(2,634,347)
Cost of Removal, Net of Salvage	43,434	(4,019)
Interest Expense	(24,500)	(29,495)
Principal Payments on Bonds	(140,000)	(135,000)
Net Cash Used by Capital and Related Financing Activities	(3,758,946)	(2,802,861)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Other Investments and Special Funds	(19,832,049)	(11,145,571)
Sales of Other Investments and Special Funds	19,596,495	11,173,000
Change in Shared Savings Loans Receivable	(10,393)	—
Interest Income	768,000	976,185
Net Cash Provided by Investing Activities	522,053	1,003,614
NET INCREASE IN CASH AND CASH EQUIVALENTS	(96,608)	1,934,872
CASH AND CASH EQUIVALENTS – BEGINNING	7,404,941	5,470,069
CASH AND CASH EQUIVALENTS – ENDING	$7,308,333	$7,404,941
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$410,678	$844,059
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	2,037,921	1,853,845
Decrease (Increase) in Deferred Charges	37,723	41,123
Increase (Decrease) in Deferred Credits	37,803	10,650
Increase (Decrease) in Operating Reserves	102,960	(238,697)
Increase (Decrease) in Other Postemployment Benefits Payable	341,319	—
(Increase) Decrease in:		
Customer Accounts Receivable	134,143	151,554
Shared Savings Receivable	(10,393)	12,114
Other Accounts Receivable	456,410	(422,829)
Materials and Supplies Inventory	(44,132)	207,139
Prepaid Expenses	23,566	(6,606)
Increase (Decrease) in:		
Accounts Payable	(112,744)	1,156,266
Accrued Expenses	(30,194)	31,605
Other Liabilities	(244,164)	104,323
Net Cash Provided by Operating Activities	$3,140,896	$3,744,546
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash Transactions – Change in Fair Value of Investments	$31,332	$(254,525)

See accompanying notes to Basic Financial Statements.

Notes to Basic Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Austin Utilities have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

Financial Reporting Entity

Austin Utilities is an enterprise fund of the City of Austin, Minnesota and is thus exempt from federal and state income tax. The purpose of the fund is to account for the generation and distribution of electrical, gas, and water services to the residents of the City. The Utilities is governed by a five-member Board of Commissioners. Board members are elected for four-year terms.

For financial reporting purposes, the Utilities has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Utilities has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the organization to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Organization. The Utilities has no component units which meet the Governmental Accounting Standards Board criteria. The Utilities is considered a part of the reporting entity of the City of Austin, Minnesota and is included in the City's financial statements as an enterprise fund.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recognized when earned. Expenses are recorded when the related liability is incurred. The principal operating revenues and expenses are sales and purchases, production, and distribution expenses.

In accordance with Governmental Accounting Standards Board (GASB) Statement 20, the Utilities has elected not to apply the Financial Accounting Standards Board (FASB) Statements and interpretations issued after November 30, 1989.

Utility Plant and Depreciation

Capital assets are recorded on a cost basis, including cost of labor and materials used by the Utility. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The utility plant is recorded and grouped into common or like-kind assets, and depreciated on a composite basis using straight-line depreciation, except for transportation equipment and power operated equipment which are depreciated on an item basis. The Utilities accounts for depreciation on the remaining life method using straight-line depreciation. The Utilities has estimated the remaining lives of assets and has depreciated the assets over this extended estimated life.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposit accounts, and certificates of deposit with maturities of one year or less that are not specifically being reserved to be cash and cash equivalents.

Investments

In accordance, with GASB 31, the Utilities records its investments at fair value, except for non-negotiable certificates of deposit, which are stated at cost.

Inventory

Stores and materials inventory and fuel oil inventory are costed on a moving weighted-average method. All inventories are stored by the Utilities.

Sick Leave and Post-Retirement Benefits

Sick leave is accrued as earned by the employees and is funded by restricted investments.

In addition to providing pension benefits, the Utilities offers health insurance benefits for all retired employees. The employer's obligation is equal to 100% of the premiums less a monthly $171 retiree contribution (if under family coverage) for employees hired prior to January 1, 2005, financed on a pay-as-you-go basis. Employees hired after January 1, 2005 are responsible for the premium. The Utilities adopted Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions in 2008.

Revenue Recognition

Meter readings are taken throughout the month for residential and small commercial accounts, with billing statements being made on the 10th, 20th, and 30th of each month. Billings for some accounts are up to 15 days after the meter is read. Large commercial accounts are read at the end of the billing cycle and billed currently. Estimated billings are made for unread meters, which are adjusted the next month when read. The Utilities does not record unbilled revenue.

Gross Earnings Tax

The Austin Utilities is municipally owned and is exempt from property and income taxes. In lieu of property taxes, a gross earnings tax is paid to the City of Austin. Total taxes paid totaled $1,625,368 and $1,592,896 in 2008 and 2007, respectively.

Economic Dependency

During the years ended December 31, 2008 and 2007 net sales to Hormel Foods Corporation amounted to $15,319,367 and $11,508,047, respectively. Sales to this customer accounted for 10% or more of the total revenue of the Utilities for those years.

Risk Management

The Utilities is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The Utilities has purchased commercial insurance for its personal property claims. Coverage is provided on building and contents up to $116,639,060.

The Utilities participates in the League of Minnesota Cities Insurance Trust (LMCIT) for its workers compensation insurance. The plan is administered by Berkley Administrators. Each member of the association is required to pay a premium for coverage of claims and administrative expenses. This is a retrospectively rate policy with the premium being based primarily on the Utilities' loss experience. An aggregate excess reinsurance policy provides the group with additional funds for protection from losses not covered by the specific excess. In addition, per occurrence coverage for claims has been purchased. Each member is jointly and severally liable for additional assessments. As of the date of this report, it is not possible to determine if any additional liability exists for the year ended December 31, 2008.

The Utilities is self insured for general liability and health insurance. See Note 11 for further details related to self insurance.

There has been no significant reduction in insurance coverage from the previous year in any of the Utilities' policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

Net Assets
Net assets represent the difference between assets and liabilities in the basic financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the basic financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

The balance sheets report restricted net assets of $135,000 and $135,211 at of December 31 2008 and 2007, respectively. None of the restricted net assets are restricted by enabling legislation.

NOTE 2 DETAIL OF UTILITY PLANT

Utility plant activity was as follows:

As of December 31, 2008	Beginning Balance	Additions	Retirements	Ending Balance
Land and Land Rights	$363,956	$ –	$ –	$363,956
Utility Plant in Service	74,953,755	3,637,880	(382,781)	78,208,854
Less Accumulated Depreciation for Utility Plant in Service	(43,579,897)	(2,036,388)	343,813	(45,272,472)
Capital Assets, Net	$31,737,814	$1,601,492	$(38,968)	$33,300,338

As of December 31, 2007	Beginning Balance	Additions	Retirements	Ending Balance
Land and Land Rights	$363,956	$ –	$ –	$363,956
Utility Plant in Service	72,525,502	2,634,347	(206,094)	74,953,755
Less Accumulated Depreciation for Utility Plant in Service	(41,937,697)	(1,848,294)	206,094	(43,579,897)
Capital Assets, Net	$30,951,761	$786,053	$ –	$31,737,814

Assets included in land and land rights are not being depreciated.

NOTE 3 SPECIAL FUNDS

These funds represent certificates of deposit, demand deposit accounts and debt securities that fund various liabilities and reserves of the Utilities. Special funds consisted of the following at December 31, 2008 and 2007:

	2008	2007
Employee Sick Pay Benefits Fund	$1,870,630	$1,766,193
General Liability Insurance Fund	1,134,139	1,123,945
Flexible Spending Account	22,536	28,144
U.S. Savings Bond Fund	95	188
Operations and Maintenance, Repairs and Restorations - Capacity Purchase Agreements	448,763	410,960
Self-Funded Health Insurance Fund	1,198,798	1,105,042
	$4,674,961	$4,434,472

NOTE 4 DEPOSITS AND INVESTMENTS

Deposits
Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Utilities' deposits may not be returned to it in full. The Utilities has an investment policy which follows the Minnesota Statutes for deposits.

In accordance with Minnesota statutes the Austin Utilities maintains deposits at financial institutions that are authorized by the Austin City Council.

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

Authorized collateral includes certain U.S. government securities, state or local government obligations, and other securities authorized by Minn. Stat. 118.A.03. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

The Utilities' deposits in banks at December 31, 2008 and 2007 were entirely covered by federal depository insurance or by collateral held by the Utilities' custodial bank in the Utilities' name.

Investments
The Utilities may also invest 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 receives 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 rated "A" or better
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories
- Repurchase or reverse purchase agreements 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.

The Utilities had the following investments at December 31, 2008:

		Investment Maturities in Years			
	Fair Value	Less Than 1	1-5 Years	6-10 Years	More than 10
Federal Farm Credit Bank Notes	$2,522,970	$ –	$1,009,060	$1,513,910	$ –
Federal Home Loan Bank Notes	2,515,165	–	515,155	–	2,000,010
Federal National Mortgage Association Notes	2,887,974	–	1,000,630	1,008,440	878,904
Federal Home Loan Mortgage Corporate Discount Notes	1,194,952	–	–	1,194,952	–
USB Select Money Market Fund	2,050,526	2,050,526	–	–	–
	$11,171,587	$2,050,526	$2,524,845	$3,717,302	$2,878,914

Interest Rate Risk
The Utilities has a formal investment policy that addresses permissible investments, portfolio diversification and instrument maturities. Investment maturities are scheduled to coincide with projected cash flow needs. Within these parameters, it is the Utilities' policy to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses related to rising interest rates.

NOTE 4 DEPOSITS AND INVESTMENTS
Continued

Credit Risk

As of December 31, 2008, the Utilities' investments in Federal Farm Credit Bank obligations were rated Aaa and AAA by Moody's Investor Services and Standard & Poor's, respectively; Federal Home Loan Bank obligations were rated Aaa and AAA by Moody's Investor Services and Standard & Poor's, respectively; their investments in Federal National Mortgage Association Notes were rated Aaa, AAA and AAA by Moody's Investor Services, Standard & Poor's and Fitch Ratings, respectively; and, their investments in Federal Home Loan Mortgage Corporate Discount Notes were rated Aaa, AAA and AAA by Moody's Investor Services, Standard & Poor's and Fitch Ratings, respectively. As of December 31, 2008 the Utility had invested $2,050,526 in the USB Select Money Market Fund. This investment fund is rated AAAm by Standard & Poor's and Aaa by Moody's Investor Services.

Concentration of Credit Risk

The Utilities does not place a limit on the amount of the total portfolio that may be invested in any one depository or issuer. The Finance Department is responsible for investment decisions and activities under the direction of the Austin Utilities Commission. The following is a list of investments which individually comprise more than 5 percent of the Utilities' total investments:

	2008 Fair Value	2007 Fair Value
USB Select Money Market	$2,050,526	$1,240,830
Federal Farm Credit Bank Notes	2,522,970	1,522,655
Federal Home Loan Bank Notes	2,515,165	4,918,909
Federal National Mortgage Association Notes	2,887,974	2,009,380
Federal Home Loan Mortgage Corporate Discount Notes	1,194,952	2,401,449
	$11,171,587	$12,093,223

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utilities will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utilities does not have a formal policy regarding the holding of securities by counterparties, however, as of December 31, 2008, the Utilities did not have any such arrangements.

Balance Sheet Presentation

The deposits and investments are presented in the financial statements as follows:

	2008	2007
Deposits	$9,978,525	$8,949,275
Investments	11,171,587	12,093,223
	$21,150,112	$21,042,498
Balance Sheet:		
Cash and Cash Equivalents	$7,308,333	$7,404,941
Special Funds	4,674,961	4,434,472
Bond Funds	135,000	135,211
Other Investments	9,031,818	9,067,874
Total	$21,150,112	$21,042,498

NOTE 5 INVENTORIES

Inventories consist of the following at December 31, 2008 and 2007:

	2008	2007
Fuel Oil	$3,105	$2,767
Plant Materials and Operating Supplies	1,551,722	1,507,928
	$1,554,827	$1,510,695

NOTE 6 DEFERRED CHARGES

Deferred charges consist of the following at December 31, 2008 and 2007.

	2008	2007
Water Tower Maintenance	$231,820	$265,336
Deferred Special Assessment	118,301	122,508
Debt Issuance Costs	11,284	15,515
	$361,405	$403,359

The Water Tower Maintenance charges are being amortized over a ten year period. Deferred special assessments represent water improvements made to undeveloped land and the non-current portion of assessments made. These amounts will be written off as they are assessed to property owners and become collectible within one year. Debt issuance cost represents costs related to the issuance of the Electric Revenue Bonds, Series 2001A. These costs are being amortized over the life of the bonds.

NOTE 7 LONG-TERM LIABILITIES

Bonds Payable

The Utilities issued Electric Revenue Bonds, Series 2001A in 2001 for the purpose of the acquisition and installation of a new transformer and related switching equipment at the central substation. Bonds outstanding as of December 31, 2008 are comprised of the following:

	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding
Electric Utility Revenue Bonds, Series 2001A	2.5% - 4.2%	09/13/ 2001	09/01/ 2011	$1,350,000	$465,000
Less: Current Portion					150,000
					$315,000

Minimum future payments consist of the following:

Year Ended December 31	Principal	Interest
2009	$150,000	$19,075
2010	155,000	13,075
2011	160,000	6,720
	$465,000	$38,870

The following is a summary of the changes in long-term debt:

As of December 31, 2008	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Electric Utility Revenue Bonds, Series 2001A	$605,000	$ —	$(140,000)	$465,000	$150,000
Other Postemployment Benefits Payable	$ —	$341,319	$ —	$341,319	$ —
	$605,000	$341,319	$(140,000)	$806,319	$150,000

As of December 31, 2007	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Electric Utility Revenue Bonds, Series 2001A	$740,000	$ —	$(135,000)	$605,000	$140,000

NOTE 8 OPERATING RESERVES

Operating reserves consist of the following at December 31, 2008 and 2007:

	2008	2007
Employee Sick Pay Benefits Payable	$1,939,596	$1,852,291
Self-funded Health Insurance	80,108	64,453
	$2,019,704	$1,916,744

NOTE 8 OPERATING RESERVES
Continued

The reserve for employee sick pay benefits payable consisted of $1,939,596 and $1,852,291 as of December 31, 2008 and 2007, respectively. Employees of the Utilities can earn sick pay at the rate of eight hours per month. Sick pay not taken in the current year is accumulated and is payable upon retirement or termination of employment. The Utilities is required to maintain investments or cash balances equal to a least 80% of the accumulated sick pay benefits. At December 31, 2008 and 2007, the Utilities had specifically restricted investments totaling $1,870,630 and $1,766,193, respectively, or 96% and 95% in 2008 and 2007 of the accumulated benefits.

The reserve for self funded health insurance represents the amount for incurred but unrecorded health insurance claims.

NOTE 9 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Plan Description
All full-time and certain part-time employees of Austin Utilities are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the Public Employees' Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, MN 55103-2008 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy
Minnesota Statutes Chapter 353 sets the rates for the employer and employee contributions. These statutes are established and amended by the state legislature. The Utilities makes annual contribution to the pension plans equal to the amount required by State Statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.00%, respectively, of their annual covered salary.

The Utilities is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.50% for Coordinated Plan members. The Utilities' contributions to the Public Employees Retirement Fund for the years ending December 31, 2008, 2007, and 2006 were $425,893, $397,336, and $377,078, respectively. The Utilities' contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 10 OTHER POSTEMPLOYMENT BENEFIT PLAN

At December 31, 2008, the Utilities adopted Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. The Utilities engaged an actuary to determine the Utilities liability for post-employment healthcare benefits other than pensions as of January 1, 2008.

Plan Description
The Utilities operates a single-employer retiree benefit plan ("the Plan") that provides health insurance to eligible employees and their spouses through the Utilities self-insured health insurance plan. There are 100 active participants and 72 retired participants. Benefit and eligibility provisions are established through negotiations between the Utilities and various unions representing the Utilities' employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report.

Funding Policy
Contribution requirements are also negotiated between the Utilities and the union representatives. The Utilities contributes 0% - 100% of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2008, the Utilities contributed $579,712 to the plan.

Annual OPEB Cost and Net OPEB Obligation
The Utilities annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement 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 un-funded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Utilities' annual OPEB cost for the year, the amount actually paid from the plan, and changes in the Utilities' net OPEB obligation.

Annual Required Contribution	$921,031
Interest on Net OPEB Calculation	—
Adjustment to Annual Required Contribution	—
Annual OPEB Cost (Expense)	921,031
Contributions Made	(579,712)
Increase in Net OPEB Obligation	341,319
Net OPEB Obligation – Beginning of Year	—
Net OPEB Obligation – End of Year	$341,319

The Utilities' annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 is:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	$921,031	62.9%	$341,319

Funded Status and Funding Progress
As of January 1, 2008, the most recent actuarial valuation date, the Utilities unfunded actuarial accrued liability (UAAL) was $12,803,784. The annual payroll for active employees covered by the plan in the actuarial valuation was $6,707,512 for a ratio of UAAL to covered payroll of 52.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of 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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

NOTE 10 OTHER POSTEMPLOYMENT BENEFIT PLAN
Continued

In the January 1, 2008 actuarial valuation, the unprojected unit credit actuarial cost method was used, and the projected unit credit actuarial cost method was used for benefits that will be affected by future salary levels. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 10% reduced by decrements to an ultimate rate of 5.5% after nine years. The UAAL is being amortized as a level dollar amount. The remaining amortization period at December 31, 2008 was 29 years.

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES

Power Sales Contract

The Austin Utilities purchases power from Southern Minnesota Municipal Power Agency (SMMPA) under a power sales contract, which extends to April 1, 2030. Under the terms of this contract, the Utilities is obligated to buy all the electrical power and energy needed to operate the electric utility.

Capacity Purchase Agreement

The Utilities entered into a Capacity Purchase Agreement with SMMPA on the Northeast Power Plant and the Downtown Plant. Under these agreements, SMMPA is entitled to the exclusive use of 100% of the net electric generating capability of the plants, and the electric energy associated therewith. The agreements are cancelable by either party upon a five-year notice. SMMPA pays an annual capacity purchase payment, remitted monthly, to the Austin Utilities. In addition, SMMPA is required to pay for the operation, maintenance, repair and restoration of the plants. SMMPA makes monthly cash advances for these expenses to the Utilities, who draws on these cash advances as the operating costs are incurred. Unearned revenue equals the excess of SMMPA deposits over the Utilities' cash advances, and is accordingly reported as a liability (deferred credits) on the balance sheet. Balances are $448,763 and $410,960 at December 31, 2008 and 2007, respectively. The Utilities received notice from SMMPA the Downtown Plant will be shut down on December 31, 2009.

Gas Purchase Commitment

The Utilities has entered into forward contracts to purchase a portion of its natural gas at a specified time in the future at a guaranteed price. The Utilities enters into these contracts to help plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity.

It is possible that the market price before or at the specified time to purchase natural gas may be lower than the price at which the Utilities is committed to buy. This would reduce the value of the contract. The Utilities is committed to purchase 1,522,500 thousand cubic feet of natural gas through September 2011 for a total commitment of $12,669,638 at December 31, 2008.

Self-Insurance

The Utilities self insures the $1,125,000 deductible for its general liability insurance policy and has restricted assets of $1,134,139 and $1,123,945 for self-insurance at December 31, 2008 and 2007, respectively

The Utilities has elected to self fund its health insurance. The plan has two provisions, which limit the amount of claims the self-insurance can pay. Under a specific-stop-loss, the plan's liability is limited to $75,000 of combined claims paid for each employee and dependents for each year of service. Under the aggregate stop loss, the total Utilities liability will be limited to an amount determined from the insurance carrier's records by the number of employees and dependents multiplied by the provisional rate of the plan. The actual annual aggregate stop-loss is approximately $1,604,420.

The Utilities maintains reinsurance coverage covering individual claims in excess of these limits. The liability for incurred but not reported claims is included in current liabilities.

Unpaid Claims, Beginning of Year	$64,453
Incurred Claims	1,484,337
Claims Paid	(1,468,682)
Unpaid Claims, End of Year	$80,108

Austin Utilities Required Supplementary Information

Schedule of Funding Progress for Postemployment Benefit Plan

December 31, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UUAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	$ –	$12,803,784	$12,803,784	0.0%	$6,707,512	190.9%

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Austin Utilities

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Our Vision

Our vision is to be a customer responsive and innovative provider of utility services.

Our Mission

Our mission is to offer utility products and services in a safe, reliable and responsible manner in order to enhance the quality of life in our community.

Watch for more information on our 2nd Annual RE•fest:

September 19, 2009

RE • fest
A Celebration of Green Living & Clean Energy
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