




Community INVESTMENT



2010 Annual Report



The bottom half of the image shows a stage performance. A large, illuminated archway with a pattern of white stars serves as the backdrop. On the stage, a band or orchestra is performing, with various instruments and musicians visible. The scene is lit with warm, golden light, and the silhouettes of an audience can be seen in the foreground.



L

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...AN ON GOING COMMITMENT

In today's world, where companies come and go, Austin Utilities has over 100 years of service to the Austin Community. Austin Utilities tradition began in 1900, and we owe a great amount of gratitude to the men and women who have shaped our utilities throughout the years.

Through those 100 years of public service our leaders have held high expectations of both customer service and commitment to the Austin Community.

Because of their hard work and dedication, Austin Utilities has become what we are today — A public power utility that provides the Austin Community a reliable supply of natural gas, electricity, and water in a safe, reliable, and responsible matter.

Our commitment to the Austin Community, through the work we do to benefit our public power system, has been our foundation. This year's annual report is a testimony of our commitment to the community and is dedicated over the following pages.



Austin Utilities Board of Commissioners governs the Austin Utilities. Each Board Member serves a four-year term.

Jim Schroeder

Ron Felten

Thomas C. Baudler

Jeanne Sheehan

Paul Johnson

The Austin Utilities Board of Commissioners named Mark Nibaur (left) as Austin Utilities new General Manager in October of 2010, replacing Jerry McCarthy (right) who retired from Austin Utilities on Dec. 31st.



Alex Bumgardner, Power Production Director



Kim Duncomb, Support Services Director



Todd Jorgenson, Gas/Water/Engineering Operations Director



Tom Tylutki, Electric Distribution Director



Reliability

...AN ON GOING COMMITMENT

Because we are a municipally-owned utility, citizens of Austin benefit from lower rates, reliable utilities, and responsive service.

Our commitment for more than a century is to the citizens in this community.

This dedication plays out every day, as employees strive and succeed to meet or exceed customer expectations.

That work is grounded in the values of community ownership. Employees, most of whom are customers themselves, understand the importance leadership and live it each day on the job and in the community.



Austin Utilities produced 3,661,560 Kwhrs of energy collaboratively between the Downtown and Northeast Power Plants in 2010. We also successfully completed the annual performance test and both plants remained environmentally compliant with the State of Minnesota and Federal regulation.

Austin Utilities installed 45,000 feet of underground cable, 29,000 feet of overhead wire, 35,000 feet of duct, and installed 115 power poles in 2010.





An additional water main crossing was installed under Interstate 90. This completed project adds reliable water supply to customers located west of I-90 and helps to maintain water quality by providing a loop system for water flow and allows for future water main extensions along the west and north side of I-90.



In 2010, Austin Utilities completed the low-pressure natural gas distribution system project (a completed long-term goal from the 1980's). This upgrade will provide customers the availability of additional natural gas volumes and pressure for new or existing locations.



Austin Utilities continues to offer residential and commercial customers rebates and incentives for energy conservation. 3,221 residential customers and 134 commercial customers received rebate checks in 2010.



Reconditioning of the Belair Water Tower was completed in 2010. The project took approximately two years to complete with an approximately 15 to 20 plus years of life expectancy for the new coating system.



S ervice

...AN ON GOING COMMITMENT



Austin Utilities employees contributed \$6,280 to Mower County United Way.

Austin Utilities employees contributed 776 pounds of food to the Salvation Army Food Shelf.



RE • fest is a fun-filled and inspirational day celebrated every year to learn new ways to conserve the Earth's limited resources.



While our priority is delivering services in a safe and reliable manner, we are also serious about supporting the people that live in our community.

Employees take pride in our community and have an admirable track record of sharing their time and talents to activities and organizations that enhance our community.

Whether it is serving as a youth coach, community contributions, or mutual aid, our employees are ready to do what it takes to enhance the place we call home.



Austin Utilities provides mutual aid to neighboring communities in their time of need.



Independent Auditors' Report

Board of Commissioners
Austin Utilities
Austin, Minnesota

We have audited the accompanying basic financial statements of Austin Utilities, a enterprise fund of the City of Austin, State of Minnesota, as of and for the years ended December 31, 2010 and 2009, 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and the Schedule of Funding Progress for Postemployment Benefit Plan 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
February 17, 2011

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, 2010 and 2009. 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 principles 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 2010 in the amount of \$53,073,792 (Net Assets). This is an increase of \$1,855,474 over net assets at the close of 2009.
- 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 2010 were \$3,756,529. The electric department had capital expenditures of \$1,140,496 which included \$1,089,790 for substation improvements, line transformers, developments, line extensions and conversions. The water department had capital expenditures of \$1,959,133 which included \$960,174 for the Belair water tower refurbishment, \$762,369 for main extensions and replacements and \$176,206 for meters. The water department installed over 13,403 feet of new water main during 2010. The gas department had capital expenditures of \$300,725. The gas department installed over 8,240 feet of new gas main in 2010. General Plant capital expenditures were \$322,848 in 2010.

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

CONDENSED BALANCE SHEETS

	2010	2009	2008
Capital Assets, Net	\$35,131,695	\$34,232,887	\$33,300,338
Current Assets	12,262,033	13,289,994	12,478,241
Noncurrent Assets	14,229,697	13,220,401	13,884,609
Deferred Expenses	1,228,571	322,711	361,405
Total Assets	<u>\$62,851,996</u>	<u>\$61,065,993</u>	<u>\$60,024,593</u>
Current Liabilities	\$6,739,751	\$6,525,857	\$6,898,648
Operating Reserves	1,992,413	2,093,468	2,019,704
Long-Term Liabilities:			
Long-Term Debt	—	160,000	315,000
OPEB Liability	1,046,040	710,242	341,319
Deferred Credits	—	358,108	448,763
Total Liabilities	<u>9,778,204</u>	<u>9,847,675</u>	<u>10,023,434</u>
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	35,001,067	33,948,792	32,867,775
Restricted	135,000	135,000	135,000
Unrestricted	17,937,725	17,134,526	16,998,385
Total Net Assets	<u>53,073,792</u>	<u>51,218,318</u>	<u>50,001,160</u>
Total Net Assets and Liabilities	<u>\$62,851,996</u>	<u>\$61,065,993</u>	<u>\$60,024,593</u>

Condensed balance sheet highlights are as follows for the year ended December 31, 2010:

- Current assets decreased \$1,027,961. 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 2010 in the amount of \$1,009,296. The increase was due to the increase in the fair market values of investments with maturities greater than one year and the addition of a restricted investment for Other Post-Employment Benefits as well as the increase in the health insurance fund.

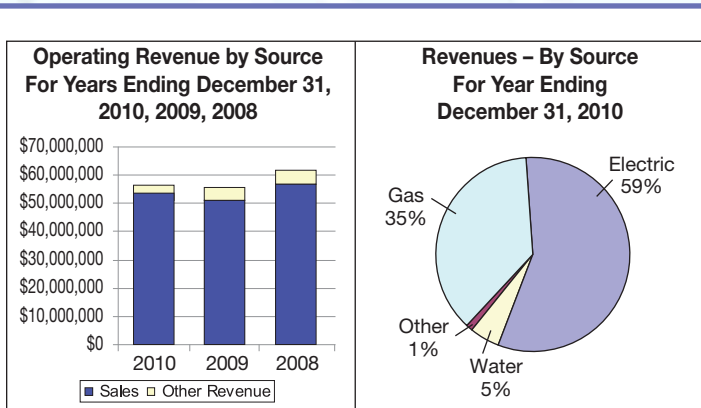
- Deferred expenses increased \$905,860. Prepaid expenditures within this classification include preliminary survey and investigation charges, unamortized debt issuance costs, deferred water assessments, and expenditures for water tower maintenance. Water tower maintenance expenses increased \$910,655 in 2010 due to the refurbishment of the Belair water tower. Amortization of the debt issuance costs of \$4,231 along with payments of deferred assessments of \$564 decreased deferred expenses.

- Current liabilities increased \$213,894 at the end of 2010.
- Long-Term liability Other Post-Employment Benefits Payable increased \$335,798 in 2010.
- Operating reserves, which include liabilities for employee sick pay benefits and health insurance, decreased \$101,055. Operating reserves were \$1,922,413 at December 31, 2010.
- Deferred credits decreased \$358,108 at the end of 2010. Deferred credits consist of unearned revenue from the Southern Minnesota Municipal Power Agency (SMMPA) for expenditures for the operation of the Northeast Power Plant; the contract with SMMPA was terminated on August 31, 2010.
- Net assets invested in capital assets, net of related debt increased \$1,052,275. This increase is the result of investment in plant exceeding retirements and depreciation in the amount of \$897,275 and the retirement of long term debt in the amount of \$155,000. See Note 2 to the financial statements for more details related to changes in utility plant.
- Unrestricted net assets increased \$803,199 during 2010.

Condensed balance sheet highlights are as follows for the year ended December 31, 2009:

- Current assets increased \$811,753. Current assets consist of cash and working funds, temporary investments (maturities of one year or less), accounts receivable, inventories, and prepayments.
- Non-current assets decreased during 2009 in the amount of \$664,208. The decrease was due to the decrease in the fair market values of investments with maturities greater than one year and the decrease in the health insurance fund.
- Deferred expenses decreased \$38,694. 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 \$947 accounted for this decrease.
- Current liabilities decreased \$372,791 at the end of 2009.
- Long-Term liability Other Post-Employment Benefits Payable increased \$368,923 in 2009.
- Operating reserves, which include liabilities for employee sick pay benefits and health insurance, increased \$73,764. Operating reserves were \$2,093,468 at December 31, 2009.
- Deferred credits decreased \$90,655 at the end of 2009. 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.
- Net assets invested in capital assets, net of related debt increased \$1,081,017. This increase is the result of investment in plant exceeding retirements and depreciation in the amount of \$931,017 and the retirement of long term debt in the amount of \$150,000. See Note 2 to the financial statements for more details related to changes in utility plant.
- Unrestricted net assets increased \$136,142 during 2009.

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, 2010, 2009, and 2008:

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

	2010	2009	2008
ELECTRIC			
Operating Revenues, Electric Sales	\$30,460,358	\$27,753,262	\$26,966,674
Other Electric Operating Revenues	2,622,863	4,370,357	4,744,988
Total Electric Operating Revenues	33,083,221	32,123,619	31,711,662
Operating Expenses	32,914,194	31,826,473	31,549,451
Total Electric Operating Income	169,027	297,146	162,211
Other Electric Income	287,066	126,976	368,257
Interest Expense, Net	(16,116)	(24,188)	(33,693)
Change in Net Assets, Electric	439,977	399,934	496,775
WATER			
Operating Revenues, Water Sales	2,524,022	2,528,836	2,365,328
Other Water Operating Revenues	60,943	64,114	63,440
Total Water Operating Revenues	2,584,965	2,592,950	2,428,768
Operating Expenses	2,456,083	2,717,418	2,588,274
Total Water Operating Income	128,882	(124,468)	(159,506)
Other Water Income	105,124	46,334	138,166
Change in Net Assets, Water	234,006	(78,134)	(21,340)
GAS			
Operating Revenues, Gas Sales	19,548,522	20,108,180	26,703,390
Other Gas Operating Revenues	83,053	85,921	89,382
Total Gas Operating Revenues	19,631,575	20,194,101	26,792,772
Operating Expenses	18,677,162	19,396,707	26,384,800
Total Gas Operating Income	954,413	797,394	407,972
Other Gas Income	228,005	100,846	297,692
Interest Expense, Net	(927)	(2,882)	(6,770)
Change in Net Assets, Gas	1,181,491	895,358	689,894
Total Change in Net Assets	\$1,855,474	\$1,217,158	\$1,174,329
Beginning Net Assets	\$51,218,318	\$50,001,160	\$48,826,831
Change in Net Assets	1,855,474	1,217,158	1,174,329
Ending Net Assets	\$53,073,792	\$51,218,318	\$50,001,160

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

ELECTRIC

2010 Compared to 2009

- Revenue from electric sales increased in the amount of \$2,707,096. Other electric operating revenue decreased \$1,747,494. Electric rates were adopted November 10, 2009 that went into effect on January 1, 2010, which were necessary to recover the increased purchased power costs from our wholesale supplier, Southern Minnesota Municipal Power Agency (SMMPA) as well as increased operating and maintenance costs. Sales by volume increased 3.71 percent in 2010. The decrease in other electric revenues was due to the decrease in the Revenue from Capacity Purchase agreement with SMMPA, which related to decreased generation expenses in 2010.
- Operating expenses increased \$1,087,721 in 2010. Steam power generation expenses decreased \$1,163,462 due to decreased operating costs of the electric plant. Power supply expenses increased \$2,691,959 due to increased purchased power costs. Distribution expenditures decreased \$707,233 due to the decrease in maintenance of overhead lines as compared to 2009 when infrastructure repairs were needed after the June tornado. Other operating expenses increased \$266,457.
- Other electric income increased \$160,090. An increase in interest income on the utilities investments accounted for this decrease.
- Interest expense decreased \$8,072. Interest expense on the electric revenue bonds decreased \$6,118 due to the reduction of long term debt on electric revenue bonds in the amount of \$155,000; whereas interest expense paid on customer deposits decreased \$1,954 in 2010.

2009 Compared to 2008

- Revenue from electric sales increased in the amount of \$786,588. Other electric operating revenue decreased \$374,631. A purchased cost

adjustment (PCA) was in effect the entire year and accounted for \$1,928,416 of additional revenue, which was necessary to recover the increased purchased power costs in 2009 from our wholesale supplier, Southern Minnesota Municipal Power Agency (SMMPA) as well as increased operating and maintenance costs. Sales by volume decreased 4.05 percent in 2009. The bulk of the increase in other electric revenues was due to the decrease in the Revenue from Capacity Purchase agreement with SMMPA which relates to decreased generation expenses in 2009.

- Operating expenses increased \$277,022 in 2009. Steam power generation expenses decreased \$579,257 due to decreased operating costs of the electric plant. Power supply expenses increased \$58,554 due to increased purchased power costs. Distribution expenses increased \$837,636 as more time was spent on maintenance of the infrastructure due to the June 2009 tornado. Other operating expenses decreased \$39,909.
- Other electric income decreased \$241,281. A decrease in interest income on the utilities investments accounted for this decrease.
- Interest expense decreased \$9,505. Interest expense on the electric revenue bonds decreased \$5,617 due to the reduction of long term debt on electric revenue bonds in the amount of \$150,000; whereas interest expense paid on customer deposits decreased \$3,888 in 2010.

WATER

2010 Compared to 2009

- Revenue from the sale of water decreased \$4,184. Other water revenue decreased in the amount of \$3,171. Sales of water by volume decreased 6.60% due to the decreased usage by customers. New water rates were implemented in June 2009 to a two season single block rate structure with a higher charge in the summer months to encourage water conservation. This rate structure also meets the state mandated conservation requirement that needed to be in place by January 1, 2013. The decrease in other water revenues was due to the decreased number of water taps in 2010.
- Operating expenses decreased \$261,335. Water production decreased due to reduced power purchased for pumping and reduced chemical expenditures as a result of decreased sales volume as well as reduced maintenance expenditures. Distribution expenses decreased as a result of decreased maintenance costs in services, distribution mains and hydrants. In 2010, 13 customer owned water service lines were repaired or replaced. The department also replaced and reconnected 68 existing water service lines in 2010 during water main replacement projects compared to 2009 where there were 27 service line repairs and 150 replacements and reconnects during water main projects. There were 21 water main breaks repaired in 2010 compared to 32 water main breaks in 2009. Other operating expenses increased \$20,802.
- Other water income increased \$58,790. An increase in interest income on the utilities investments accounted for this increase.

2009 Compared to 2008

- Revenue from the sale of water increased \$163,508. Other water revenue increased in the amount of \$674. Sales of water by volume decreased 3.45% due to the decreased usage by customers. New water rates were implemented in June 2009 to a two season single block rate structure with a higher charge in the summer months to encourage water conservation. This rate structure also meets the state mandated conservation requirement that needed to be in place by January 1, 2013. The bulk of the increase in other water revenues was due to the increased number of water taps in 2009.
- Operating expenses increased \$129,144. Water production decreased due to reduced chemical expenditures as a result of decreased sales volume as well as reduced maintenance expenditures. Distribution expenses increased as a result of increased maintenance costs in both distribution mains and hydrants. In 2009, 27 water service lines were repaired or replaced. The department also replaced and reconnected 150 existing water service lines in 2009 during water main replacement projects compared to 242 in 2008. There were 32 water main breaks repaired in 2009 compared to 26 water main breaks in 2008. Other operating expenses increased \$86,983.
- Other water income decreased \$91,832. This decrease was the result of the lower interest rates earned on the utility investments in 2009.

GAS

2010 Compared to 2009

- Revenue from the sale of natural gas decreased \$559,658 in 2010. The decrease is due to the lower cost of gas and lower volumes in 2010. Other

gas revenues decreased in the amount of \$2,868. Sales of gas by volume decreased 3.93 percent in 2010. This decreased revenue by \$1,132,396. The change in revenue due to price increased sales by \$572,738 in 2010.

- Operating expenses decreased \$719,545 in 2010. The price of natural gas purchased in 2010 was 1.18 percent lower than 2009 which accounted for \$779,275 of reduced expenses. Distribution expenses increased \$24,009. Other operating expenses increased \$35,721 in 2010.
- Other gas income increased \$127,159. An increase in interest income on the utilities investments accounted for this increase.

2009 Compared to 2008

- Revenue from the sale of natural gas decreased \$6,595,210 in 2009. The decrease is due to the lower cost of gas in 2009. Other gas revenues decreased in the amount of \$3,461. Sales of gas by volume decreased 2.43 percent in 2009. This decreased revenue by \$472,446. The change in revenue due to price decreased sales by \$6,122,762 in 2009.
- Operating expenses decreased \$6,988,093 in 2009. The price of natural gas purchased in 2009 was 2.63 percent lower than 2008 which accounted for \$6,985,102 of reduced expenses. Distribution expenses increased \$8,722. Other operating expenses increased \$153,443 in 2009.
- Other gas income decreased \$196,846. This decrease was the result of lower interest rates earned on the utilities investments in 2009.

COMBINED UTILITIES

2010 Compared to 2009

- The total change in net assets in 2010 was an increase in the amount of \$1,855,474 as compared to an increase of \$1,217,158 in 2009. The 2010 increase is the result of combined operating income in the amount of \$1,252,322 and other income in the amount of \$620,195, and was reduced by interest expense in the amount of \$17,043.

2009 Compared to 2008

- The total change in net assets in 2009 was an increase in the amount of \$1,217,158 as compared to an increase of \$1,174,329 in 2008. The 2009 increase is the result of combined operating income in the amount of \$970,072 and other income in the amount of \$274,156, and was reduced by interest expense in the amount of \$27,070.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

- The Utilities investment in capital assets as of December 31, 2010 amounts to \$35,131,695 (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)

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>
Land and Land Rights	\$617,125	\$518,356	\$98,769
Electric Plant in Service	13,780,455	13,610,755	169,700
Water Plant in Service	8,826,069	8,058,855	767,214
Gas Plant in Service	6,812,402	6,841,852	(29,450)
General Plant in Service	5,095,644	5,203,069	(107,425)
	<u>\$35,131,695</u>	<u>\$34,232,887</u>	<u>\$898,808</u>
			<u>Dollar Change</u>
	<u>2009</u>	<u>2008</u>	
Land and Land Rights	\$518,356	\$363,956	\$154,400
Electric Plant in Service	13,610,755	13,775,382	(164,627)
Water Plant in Service	8,058,855	7,582,049	476,806
Gas Plant in Service	6,841,852	6,820,671	21,181
General Plant in Service	5,203,069	4,458,280	444,789
	<u>\$34,232,887</u>	<u>\$33,300,338</u>	<u>\$932,549</u>

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

Long-Term Debt:

• In 2010 long term debt decreased in the amount of \$155,000 for a substation financing in 2001, and stood at \$160,000 at December 31, 2010. In 2009 long term debt decreased in the amount of \$150,000 and stood at \$315,000 at December 31, 2009. 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 Climate Change Legislation (Co2 legislation) and the Renewable Energy Standard.

Austin Utilities will not be increasing rates to their customers in 2011. On November 9, 2010 the Austin Utilities Board of Commissioners approved the 2011 budget. The budget ensures that recently approved rate increases from our wholesale provider will be absorbed by Austin Utilities and will not be passed on to the customers in 2011. Much of the savings is the result of Austin Utilities staff finding both internal and external cost savings opportunities.

In 2010, Austin Utilities was forced to increase rates in the electric department due to rate increases from our wholesale provider as well as increases in equipment, operating and maintenance costs. Infrastructure maintenance also contributed to the rate increase. New water rates were implemented in June 2009 to a two season single block rate structure with a higher charge in the summer months to encourage water conservation. This rate structure also meets the state mandated conservation requirement that needed to be in place by January 1, 2013.

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	
	2010	2009
UTILITY PLANT		
Plant in Service	\$83,786,057	\$81,381,218
Less Accumulated Depreciation	(48,654,362)	(47,148,331)
Net Utility Plant	35,131,695	34,232,887
OTHER PROPERTY AND INVESTMENTS		
Non-Utility Property (Net on Accumulated Depreciation)	29,372	30,905
Special Funds	5,367,124	4,243,225
Bond Funds	135,000	135,000
Other Investments	8,698,201	8,811,271
Total Other Property and Investments	14,229,697	13,220,401
CURRENT ASSETS		
Cash and Cash Equivalents	5,712,908	8,267,616
Accounts Receivable (Less Allowance for Uncollectible Accounts of \$200,000 in 2010 and 2009)	3,434,726	2,920,909
Partnering in Energy Loan Receivable (Less Allowance for Uncollectible Accounts of \$0 in 2010 and 2009)	74,274	23,590
Other Accounts Receivable (Less Allowance for Uncollectible Accounts of \$2,000 in 2010 and 2009)	234,689	277,475
Inventories	2,613,549	1,559,665
Prepaid Expenses	191,887	240,739
Total Current Assets	12,262,033	13,289,994
DEFERRED CHARGES	1,228,571	322,711
Total Assets	<u>\$62,851,996</u>	<u>\$61,065,993</u>
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in Utility and Non-Utility Plant, net of related debt	\$35,001,067	\$33,948,792
Restricted for Bond Sinking Fund	135,000	135,000
Unrestricted	17,937,725	17,134,526
Net Assets	53,073,792	51,218,318
LONG-TERM LIABILITIES		
Bonds Payable	—	160,000
Other Postemployment Benefits Payable	1,046,040	710,242
Total Long-Term Liabilities	1,046,040	870,242
OPERATING RESERVES	1,992,413	2,093,468
CURRENT LIABILITIES		
Accounts Payable	5,014,772	4,867,279
Accrued Expenses	980,123	959,409
Current Portion of Bonds Payable	160,000	155,000
Other Current Liabilities	584,856	544,169
Total Current Liabilities	6,739,751	6,525,857
DEFERRED CREDITS		
Unearned Revenue	—	358,108
Total Net Assets and Liabilities	<u>\$62,851,996</u>	<u>\$61,065,993</u>

See accompanying notes to Basic Financial Statements.

Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended December 31	
	2010	2009
OPERATING REVENUES		
Sales	\$52,532,902	\$50,390,278
Forfeited Discounts	218,776	226,824
Other Operating Revenues	2,548,083	4,293,568
Total Operating Revenues	<u>55,299,761</u>	<u>54,910,670</u>
OPERATING EXPENSES		
Purchases	37,782,915	35,870,231
Production	2,891,530	4,184,915
Distribution	4,286,810	5,122,248
Other Operating Expenses	9,086,184	8,763,204
Total Operating Expenses	<u>54,047,439</u>	<u>53,940,598</u>
OPERATING INCOME	1,252,322	970,072
OTHER REVENUES (EXPENSES)		
Merchandising Contract Work	3,600	1,600
Investment Income	611,246	272,702
Interest Expense	(12,812)	(22,839)
Other Expenses	(4,231)	(4,231)
Gain (Loss) on Disposal of Property	5,349	(146)
Total Other Revenues	<u>603,152</u>	<u>247,086</u>
CHANGE IN NET ASSETS	1,855,474	1,217,158
NET ASSETS, BEGINNING	<u>51,218,318</u>	<u>50,001,160</u>
NET ASSETS, ENDING	<u>\$53,073,792</u>	<u>\$51,218,318</u>

See accompanying notes to Basic Financial Statements.

Statements of Cash Flows

	Year Ended December 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$52,238,720	\$50,914,106
Cash Received From Others	1,306,247	4,141,315
Cash Paid to Suppliers	(44,942,725)	(43,962,217)
Cash Paid to Employees	(6,218,358)	(6,202,497)
Payments in Lieu of Property Taxes	(1,580,319)	(1,585,904)
Net Cash Provided by Operating Activities	<u>803,565</u>	<u>3,304,803</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Interest Paid on Customer Deposits	(3,351)	(10,598)
Proceeds from Disaster Payments	—	3,159
Proceeds from Merchandising/Contract Work	3,600	1,600
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>249</u>	<u>(5,839)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction and Acquisition of Plant	(2,795,355)	(3,123,349)
Cost of Removal, Net of Salvage	(10,932)	3,999
Interest Expense	(13,075)	(19,075)
Principal Payments on Bonds	(155,000)	(150,000)
Net Cash Used by Capital and Related Financing Activities	<u>(2,975,362)</u>	<u>(3,288,425)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Other Investments and Special Funds	(23,293,312)	(20,648,963)
Sales of Other Investments and Special Funds	22,430,161	31,003,873
Change in Shared Savings Loans Receivable	—	10,393
Interest Income	479,991	583,441
Net Cash Provided (Used) by Investing Activities	<u>(383,160)</u>	<u>948,744</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(2,554,708)	959,283
CASH AND CASH EQUIVALENTS – BEGINNING	<u>8,267,616</u>	<u>7,308,333</u>
CASH AND CASH EQUIVALENTS – ENDING	<u>\$5,712,908</u>	<u>\$8,267,616</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$1,252,322	\$970,072
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	1,915,361	2,188,187
Decrease (Increase) in Deferred Charges	(910,091)	34,463
Increase (Decrease) in Deferred Credits	(358,108)	(90,655)
Increase (Decrease) in Operating Reserves	(101,055)	73,764
Increase (Decrease) in Other Postemployment Benefits Payable	335,798	369,923
(Increase) Decrease in:		
Customer Accounts Receivable	(513,817)	260,991
Shared Savings Receivable	(50,684)	(13,197)
Other Accounts Receivable	26,363	(96,060)
Materials and Supplies Inventory	(1,053,884)	(4,838)
Prepaid Expenses	48,852	(15,890)
Increase (Decrease) in:		
Accounts Payable	147,493	(444,870)
Accrued Expenses	24,328	13,770
Other Liabilities	40,687	60,143
Net Cash Provided by Operating Activities	<u>\$803,565</u>	<u>\$3,304,803</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash Transactions –		
Change in Fair Value of Investments	<u>\$147,678</u>	<u>\$297,373</u>

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, 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 fuel oil inventory are costed on a moving weighted-average method. Fuel coal is costed on the latest invoice price. 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 maximum employer's obligation is \$1,050, with the retiree paying any amount beyond the \$1,050 maximum 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.

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 \$1,589,581 and \$1,566,622 in 2010 and 2009, respectively.

Economic Dependency

During the years ended December 31, 2010 and 2009 net sales to Hormel Foods Corporation amounted to \$13,841,480 and \$12,414,455, 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 \$94,428,266.

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, 2010.

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

There was a reduction in insurance coverage in the Utilities' boiler and machinery policy due to the closure of the Downtown Plant in December 2009. There was no significant reduction in insurance coverage from the previous year for all of the other 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 \$135,000 as of December 31 2010 and 2009, 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, 2010	Beginning Balance	Additions	Retirements	Ending Balance
Land and Land Rights	\$518,356	\$98,769	\$ —	\$617,125
Utility Plant in Service	80,862,862	2,697,586	(391,516)	83,168,932
Less Accumulated Depreciation for Utility Plant in Service	(47,148,331)	(1,913,829)	407,798	(48,654,362)
Capital Assets, Net	<u>\$34,232,887</u>	<u>\$882,526</u>	<u>\$16,282</u>	<u>\$35,131,695</u>

As of December 31, 2009	Beginning Balance	Additions	Retirements	Ending Balance
Land and Land Rights	\$363,956	\$154,400	\$ —	\$518,356
Utility Plant in Service	78,208,854	2,968,949	(314,941)	80,862,862
Less Accumulated Depreciation for Utility Plant in Service	(45,272,472)	(2,186,656)	310,797	(47,148,331)
Capital Assets, Net	<u>\$33,300,338</u>	<u>\$936,693</u>	<u>\$(4,144)</u>	<u>\$34,232,887</u>

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, 2010 and 2009:

	2010	2009
Employee Sick Pay Benefits Fund	\$1,867,880	\$1,846,880
General Liability Insurance Fund	1,120,071	1,084,396
Flexible Spending Account	15,469	18,025
U.S. Savings Bond Fund	—	50
Other Post Employment Benefits Fund	1,004,900	—
Operations and Maintenance, Repairs and Restorations - Capacity Purchase Agreements	—	358,108
Self-Funded Health Insurance Fund	1,358,804	935,766
	<u>\$5,367,124</u>	<u>\$4,243,225</u>

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, 2010 and 2009 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, 2010:

	Investment Maturities in Years				
	Fair Value	Less Than 1	1-5 Years	6-10 Years	More than 10
Federal Home Loan Bank Notes	\$2,988,990	\$ —	\$997,660	\$994,930	\$996,400
Federal National Mortgage Association Notes	1,001,130	—	—	1,001,130	—
Federal Home Loan Mortgage Corporate Discount Notes	7,781,247	—	—	2,481,775	5,299,472
USB Select Money Market Fund	54,685	54,685	—	—	—
	<u>\$11,826,052</u>	<u>\$54,685</u>	<u>\$997,660</u>	<u>\$4,477,835</u>	<u>\$6,295,872</u>

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, 2010, the Utilities' investments in Federal National Mortgage Association obligations were rated Aaa, AAA and AAA by Moody's Investor Services, Standard & Poor's and Fitch Ratings, respectively; Federal Home Loan Bank obligations were rated Aaa and AAA by Moody's Investor Services and Standard & Poor's, 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, 2010 the Utility had invested \$54,685 in the UBS 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:

	2010	2009
	Fair Value	Fair Value
Federal Farm Credit Bank Notes	\$ —	1,000,310
Federal Home Loan Bank Notes	2,988,990	1,950,320
Federal National Mortgage Association Notes	1,001,130	—
Federal Home Loan Mortgage Corporate Discount Notes	<u>7,781,247</u>	<u>7,873,059</u>
	<u>\$11,771,367</u>	<u>\$10,823,689</u>

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, 2010, the Utilities did not have any such arrangements.

Balance Sheet Presentation

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

	2010	2009
Deposits	\$8,087,181	\$10,579,565
Investments	<u>11,826,052</u>	<u>10,877,547</u>
	<u>\$19,913,233</u>	<u>\$21,457,112</u>
Balance Sheet:		
Cash and Cash Equivalents	\$5,712,908	\$8,267,616
Special Funds	5,367,124	4,243,225
Bond Funds	135,000	135,000
Other Investments	8,698,201	8,811,271
Total	<u>\$19,913,233</u>	<u>\$21,457,112</u>

NOTE 5 INVENTORIES

Inventories consist of the following at December 31, 2010 and 2009:

	2010	2009
Fuel Oil	\$2,820	\$2,820
Fuel Coal	1,119,247	—
Plant Materials and Operating Supplies	<u>1,491,482</u>	<u>1,556,845</u>
	<u>\$2,613,549</u>	<u>\$1,559,665</u>

NOTE 6 DEFERRED CHARGES

Deferred charges consist of the following at December 31, 2010 and 2009.

	2010	2009
Water Tower Maintenance	\$1,108,959	\$198,304
Deferred Special Assessment	116,791	117,355
Debt Issuance Costs	<u>2,821</u>	<u>7,052</u>
	<u>\$1,228,571</u>	<u>\$322,711</u>

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, 2010 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	<u>\$160,000</u>

Minimum future payments consist of the following:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>
2011	<u>\$160,000</u>	<u>\$6,720</u>

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

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
As of December 31, 2010					
Electric Utility Revenue Bonds, Series 2001A	\$315,000	\$ —	\$(155,000)	\$160,000	\$160,000
Other Postemployment Benefits Payable	<u>710,242</u>	<u>\$1,082,244</u>	<u>\$(746,446)</u>	<u>\$1,046,040</u>	<u>\$ —</u>
	<u>\$1,024,242</u>	<u>\$1,082,244</u>	<u>\$(901,446)</u>	<u>\$1,206,040</u>	<u>\$160,000</u>
As of December 31, 2009					
Electric Utility Revenue Bonds, Series 2001A	\$465,000	\$ —	\$(150,000)	\$315,000	\$155,000
Other Postemployment Benefits Payable	<u>341,319</u>	<u>\$913,765</u>	<u>\$(544,842)</u>	<u>\$710,242</u>	<u>\$ —</u>
	<u>\$341,319</u>	<u>\$913,765</u>	<u>\$(694,842)</u>	<u>\$1,025,242</u>	<u>\$155,000</u>

NOTE 8 OPERATING RESERVES

Operating reserves consist of the following at December 31, 2010 and 2009:

	2010	2009
Employee Sick Pay Benefits Payable	\$1,942,591	\$1,968,620
Self-funded Health Insurance	<u>49,822</u>	<u>124,848</u>
	<u>\$1,992,413</u>	<u>\$2,093,468</u>

NOTE 8 OPERATING RESERVES

Continued

The reserve for employee sick pay benefits payable consisted of \$1,942,591 and \$1,968,620 as of December 31, 2010 and 2009, 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, 2010 and 2009, the Utilities had specifically restricted investments totaling \$1,867,880 and \$1,846,880, respectively, or 96% and 94% in 2010 and 2009 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, 7.00% for Coordinated Plan members. The Utilities' contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$434,471, \$439,819 and \$425,893, 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

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 91 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. The Utilities contributed \$705,825 and \$544,842 to the plan for fiscal years 2010 and 2009, respectively.

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), an 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.

	<u>2010</u>	<u>2009</u>
Annual Required Contribution	\$1,053,834	\$919,851
Interest on Net OPEB Calculation	28,410	13,653
Adjustment to Annual Required Contribution	<u>(40,621)</u>	<u>(19,739)</u>
Annual OPEB Cost (Expense)	1,041,623	913,765
Contributions Made	<u>(705,825)</u>	<u>(544,842)</u>
Increase in Net OPEB Obligation	335,798	368,923
Net OPEB Obligation – Beginning of Year	710,242	341,319
Net OPEB Obligation – End of Year	<u>\$1,046,040</u>	<u>\$710,242</u>

The Utilities' annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010 and 2009 is:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
13/31/2010	\$1,041,623	67.8%	\$1,046,040
13/31/2009	\$913,765	59.6%	\$710,242
12/31/2008	\$921,031	62.9%	\$341,319

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the Utilities unfunded actuarial accrued liability (UAAL) was \$14,043,099. The annual payroll for active employees covered by the plan in the actuarial valuation was \$5,902,318 for a ratio of UAAL to covered payroll of 237.9%.

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, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. 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 8.5% reduced by decrements to an ultimate rate of 5% after seven years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2010 was 28 years.

Unpaid Claims, Beginning of Year	\$124,848
Incurred Claims	1,154,549
Claims Paid	<u>(1,229,575)</u>
Unpaid Claims, End of Year	<u>\$49,822</u>

Austin Utilities Required Supplementary Information
Schedule of Funding Progress for Postemployment Benefit Plan
 December 31, 2010

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)
1/1/2010	\$ —	\$14,043,099	\$14,043,099	0.0%	\$5,902,318	237.9%
1/1/2008	\$ —	\$12,803,784	\$12,803,784	0.0%	\$6,707,512	190.9%

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. Under this agreement, SMMPA was entitled to the exclusive use of 100% of the net electric generating capability of the plant, and the electric energy associated therewith. The agreement was cancelable by either party upon a five-year notice. The Northeast Plant was shut down on August 31, 2010, terminating the Capacity Purchase Agreement. SMMPA paid an annual capacity purchase payment, remitted monthly, to the Austin Utilities. In addition, SMMPA was required to pay for the operation, maintenance, repair and restoration of the plant. SMMPA made monthly cash advances for these expenses to the Utilities, who drew on these cash advances as the operating costs were incurred. Unearned revenue equaled the excess of SMMPA deposits over the Utilities' cash advances, and was accordingly reported as a liability (deferred credits) on the balance sheet. Balances are \$0 and \$358,108 at December 31, 2010 and 2009, respectively.

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 1,298,518 thousand cubic feet of natural gas through October 2013 for a total commitment of \$7,724,680 at December 31, 2010.

Self-Insurance

The Utilities self insures the \$1,125,000 deductible for its general liability insurance policy and has restricted assets of \$1,120,071 and \$1,084,396 for self-insurance at December 31, 2010 and 2009, 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 \$1,832,042.

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.

O ur Employees



Administration — Mark Nibaur (General Manager)
Roxann Gilbertson

Electric Distribution — Tom Tylutki (Director)

Dan Armagost/Joe Kroc (Supervisors)
Pat Andera, Bill Bumgarner, Brian Bushlack, Pat Donovan,
Gilbert Ferguson, Jr., Mark Gerstner, Jay Halleck, Kevin Kelley, Vern Larson,
Mark LeVasseur Russ Nelson, Daryl Prihoda, Kurt Regenscheid, Steve Tiegs

Gas/Water/Engineering Operations — Todd Jorgenson (Director)

Gas Services — Joe Dolan (Supervisor)
Joe Bartholomew, Jerry Buecksler, Bob DeVriendt, Gary Gabrielson,
Rob Gleason, Lynn Johnson, Brian Klapperick, Dave Maloney,
Tony Merten, Heather Riddles, John Troupe, Chuck Tufte

Gas & Water Construction — Mike Mentel (Supervisor)
Doug Barth, Ryan Bell, Rob Cabeen, Jason Cummings, Will Granholm,
Brian Gunderson, Wayne Guyette, Adam Heimer, Pete Jacobsen,
Marty Johnson, Jeff Majerus, Lee Morem, Wade Nelson, Scott Wangen

Engineering — Keven Maxa (Supervisor)
Samantha Bekaert, Larry Thomas, Troy Tucker,

Power Production — Alex Bumgardner (Director)

Generation — Jess Dunlap (Supervisor)
Tony Anthonisen, Steve Bissett, Bob Hyland, Tom Kitzman, Jay Kohnke,
Jeff Martinson, Duane McGonigle, Steve Millam, Dave Nordby,
Troy Oster, Jim Perrin, Charlie Peterson, Doug Rysavy, Al Schabert,
Randy Schammel, Joe Sippel, Larry Sunderman, Dave White

Support Services — Kim Duncomb (Director)

Accounting/Finance — Ann Christianson (Manager)
Karen Kelly, Joan Maxfield

Customer Service — Sherry Lunt (Supervisor)
Debbie Ball, Brad Bednar, Joanne Benson, Jim Daily, Dar Duholm,
Dale Helgeson, Beth Johannsen, John LaVelle, Marie Meyer,
Stan Rudenske, Melissa Swenson, Wendy Whalen, Kara Wollschlager

Energy Services — Kelly Lady and Dave Thompson

Information Systems — Butch Goergen (Manager)

Purchasing/Garage — Randy Judd (Supervisor)
Brad Sistek, Jerry Stowell



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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.

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