AUSTIN UTILITIES
Benefits You
2005 Annual Report

MESSAGE FROM THE GENERAL MANAGER

In the time of high energy costs, we sometimes find it difficult to see the benefit of being a municipal utility customer. Austin is one of many Minnesota cities that benefit from having a locally owned and locally operated municipal electric, gas and water utility.

The American Public Power Association states: “Public power today is an important, contemporary American institution. From small towns to big cities, wherever public power exists, it is an expression of the American ideal of local people working together to meet local needs. It is an expression of the local control that is at the heart of our federalism system.”

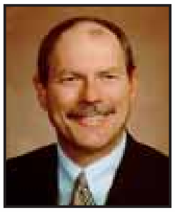
As a public power utility, Austin Utilities has many distinct characteristics that benefit the community it serves. These benefits include:

- A Board of Commissioners comprised of several community leaders who share our conviction to doing things right and doing the right thing. Your rates and service practices are set by these members of your community. If you have questions and concerns you know who to talk to.
- We are part of the community and our Board, managers and workers are part of the community. Our crews are always on hand in the event of an emergency.
- As a municipal utility we operate in the public’s interest. Our goal is long-term community benefit, not short-term gain. We work hard to save you money.
- Efficient service — lowest cost consistent with reliability, community goals and sound business practices
- Responsiveness to customer concerns — every citizen is an owner with a direct say in policies
- Emphasis on long-term community goals
- Recognized commitment to conservation, safety and the environment
- Local control over special programs (energy conservation, rate relief for certain customer classes, etc.)

The Austin Utilities Board of Commissioners and staff are committed to providing the best possible service to all of our consumer-owners both large and small. This annual report highlights several areas in which we serve our customers and our community.

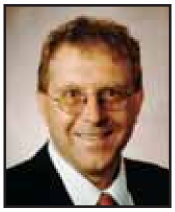
If you have questions, concerns or suggestions please call us. By working together, we can ensure that we continue to maintain the high level of service our consumer-owners have come to expect from us.

Austin Utilities Leadership



General Manager – Jerry McCarthy

Jerry has been the General Manager of Austin Utilities since 1999. He is responsible for the overall operation of the utility in accordance with established Board policies. Jerry has been with Austin Utilities since 1978, and previous to his promotion to General Manager Jerry was the Director of Administrative Services

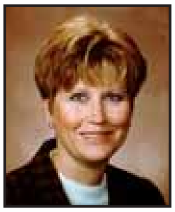


Electric Distribution Director – Tom Tylutki

Tom is responsible for the electric transmission and distribution system for Austin Utilities. This includes overseeing the planning, design, construction, operation and maintenance of all electrical systems. Tom joined Austin Utilities in 1996. Before joining Austin Utilities Tom was an Electrical Engineer with the Los Angeles Department of Water & Power.

Power & Water Distribution Director – Patrick Lunn

Pat is responsible for the two power-generation facilities and water system for Austin Utilities. This includes overall responsibility to forecast service requirements and to plan, organize and control assigned resources of the generation and water utilities to meet those requirements. Pat joined Austin Utilities team in 2000 and has been in his current position for two years.



Support Services Director – Kim Duncomb

Kim oversees the information systems, finance and accounting, customer service, purchasing, human resource/safety and energy services functions for Austin Utilities. Kim joined Austin Utilities in 2000 as the Human Resource Manager and was promoted to Support Services Director in November 2005.

Gas/Water/Engineering Operations Director – Todd Jorgenson

Todd has overall responsibility to forecast service requirements and to plan, organize and control assigned resources of the natural gas and water distribution systems. He also oversees both the engineering and gas service departments. Todd began his career with Austin Utilities in 1982.

L E A D E R S H I P

Austin Utilities Board of Commissioners

The Austin Utilities Board of Commissioners is elected by the consumer-owners of Austin to represent their best interests. The Board takes this responsibility very seriously. They are committed to making sure that all customers get the most out of the asset they own.

Part of this commitment was discussed in this annual report. Facilities, interaction with the public, financial contributions to the City of Austin and others, outreach to those in need and reliability is part of this commitment.

Each Commissioner realizes that the environment in which we operate is continually changing. This means Austin Utilities needs to be ready to adapt to these changes to better serve this community.

(standing left to right)
Commissioner Larry Pfeil
Commissioner Thomas C. Baudler
President Paul Johnson

(seated left to right)
Commissioner Ron Felten
Commissioner Jeanne Sheehan

The benefit of convenience

Austin Utilities continues to offer the benefit of convenience to you. Customers who participate in our budget billing program enjoy the benefit of knowing how much their utility statement will be each month, even during the times of high energy costs. Plus, the ability to make your monthly payment via an automatic payment plan, credit card, or the convenience of a drop box at your local grocery store.

Our customer service staff offers you the personal attention you deserve whether you stop by our main office, or prefer our customer drive-up window when you are on the go.

Austin Utilities is a part of your everyday life. We are always open to new ideas and suggestions for improvement. Call us, your local utility, who really listens to its customers.

C O N V E N I E N C E

Austin Utilities Services:

Payment Options
Budget Billing – Automatic Payment – Credit Card Payment

Conservation Programs
Conserve and Save Rebates
Partners In Planting
Energy Audit Program
Solar Choice
Wind Power

Partnerships
Midwest Wireless Cellular
TransWorld Network Long Distance
Questline Utility Insider Newsletter

Service Offerings
Security Lighting
Appliance Pilot Lighting
Carbon Monoxide Detection
Gopher One Call
Kill-A-Watt Meter

On-line Services
Application for Service
Meter Reads
Energy Audit

www.austinutilities.com

Responding to your needs

A large benefit to our customers is the 24-hour service we provide. Whether a late night lightening storm cuts power to an entire neighborhood, a problem furnace brings a cold winter night inside your home or a midnight broken water main needs repair to bring you your hot morning shower, we respond.

In 2005, to better respond to our customers after hour needs, we partnered with Cooperative Response Center, Inc. This partnership allows all after hour calls to be handled by a CRC Operator and forwarded to our dispatch center where Austin Utilities staff will respond accordingly. The Austin-based CRC is a 24-hour a day call center serving hundreds of utilities throughout the country. Their team of operators is better prepared to respond to the large volume of calls that often occur during an emergency.

We believe that when you flip the switch the lights should come on, when you need to heat your home or business, natural gas will be safely delivered to your heat sources, and when you open the faucet pure water is available for your use.

Our staff is here is to provide the reliable service you deserve.

RESPONDING

Energy Conservation Services

As energy costs continue to increase it is more important than ever to ensure your energy dollars are spent wisely. Our full range of energy conservation programs are designed to help our customers do just that.

- Our Energy Audit Program uncovers where energy is being used and advises our customers where current energy usage can be reduced. In 2005, seventy-six Austin Utilities customers received energy audits.
- The Conserve and Save Rebate Program provides rebates for energy efficient equipment purchases to help bridge the gap in cost. Over 1,700 customers applied for energy conservation rebates.
- In partnership with local nurseries, Partners in Planting provides you discounts on the purchase of deciduous shade trees. Carefully positioned trees can save up to 25% of a household's heating and cooling energy consumption.
- Our Load Management Program helps reduce electric and gas load during peak usage.

These programs offer a win/win situation for both the customer and the utility. Not only do these programs help our customers reduce their energy costs but they also reduce costly demand charges for utilities.

Our Energy Services department is here to be your energy expert!

CONSERVATION

EDUCATION

Education

As a municipal utility we stay involved in the community. Whether you are a residential or commercial customer you can benefit from the education we provide:

- Each year you will see us at the annual Home and Vacation Show and the Mower County Fair promoting our programs and energy efficiency.
- We offer a variety of classes to our customers including Home Energy Awareness.
- For several years we have provided electric safety education to our children in the elementary schools and plan to add energy conservation and renewable energy in the future.
- Our technical seminars on current energy efficiency topics for our commercial customers and local contractors have been very successful.
- We also enjoy presenting to local clubs and organizations on conservation and current energy efficiency programs.

Stop by our office and help yourself to the extensive variety of educational materials we have on display.

Renewable Energy

Today much of the energy we use in the United States comes from burning fuels, such as coal and natural gas. However, many of our customers believe we need to lessen our dependence on fossil fuels and produce more energy from renewable sources like the sun, water and wind. To respond to

RENEWABLE

this increased interest in renewable energy we offer wind and solar programs that our customers can participate in.

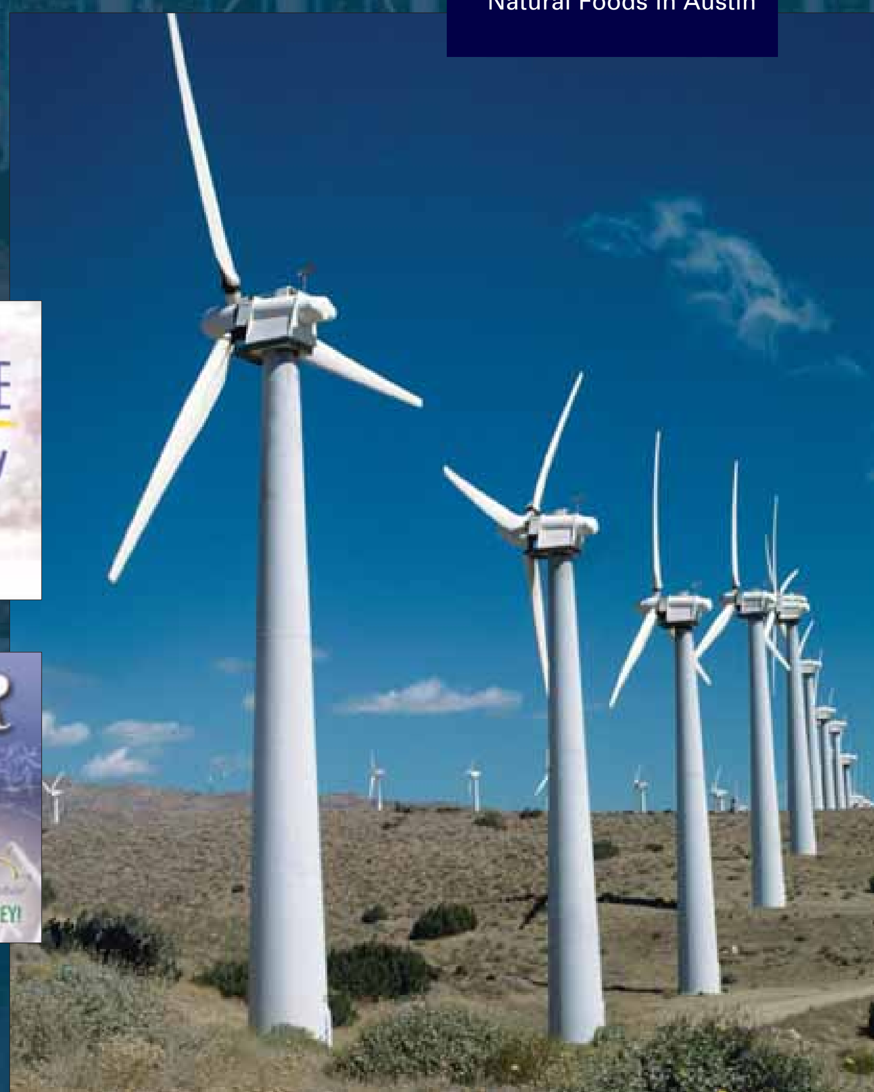
Wind energy is a renewable source and has been the fastest growing source of electric generation in the world during the last decade. You can help us as we work to create a cleaner environment – ensuring a healthier planet for years to come.

Solar Choice makes solar electricity affordable today by connecting customers that want to produce solar electricity with other customers that want to support the development of renewable energy by paying a small premium on their utility bill.

A monthly contribution via your utility bill can support the development of renewable energy.

"I am so proud and happy to be the first commercial solar project in Austin. We are falling behind as Americans and must move forward on our own with our energy production. We each cannot only conserve, but produce energy for ourselves from renewable sources."

— Caron Jagodzinski, Owner of Good Earth Natural Foods in Austin



Independent Auditors' Report

Board of Commissioners
Austin Utilities
Austin, Minnesota

We have audited the accompanying basic financial statements of Austin Utilities, an enterprise fund of the City of Austin, State of Minnesota, as of and for the years ended December 31, 2005 and 2004. 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, 2005 and 2004, 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 is not a required part of the basic financial statements but is 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.

LARSON, ALLEN, WEISHAIR & CO., LLP

February 21, 2006
Austin, Minnesota

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, 2005 and 2004. 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 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 2005 in the amount of $44,164,333 (Net Assets). This is an increase of $626,604 over net assets at the close of 2004.

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.

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

Condensed Balance Sheets

	2005	2004	2003
Capital Assets, Net	$29,846,663	$29,323,846	$28,942,673
Current Assets	10,618,929	10,424,569	9,477,142
Non-current Asset	13,360,654	12,379,262	12,748,585
Deferred Expenses	496,148	174,148	291,009
Total Assets	$54,322,394	$52,301,825	$51,459,409
Current Liabilities	$7,001,831	$5,434,819	$4,918,268
Operating Reserves	1,914,552	2,078,568	2,020,341
Long-Term Liabilities:			
Long-Term Debt	740,000	870,000	995,000
Deferred Credits	501,678	380,709	525,431
Total Liabilities	10,158,061	8,764,096	8,459,040
Net Assets			
Invested in Capital Assets, Net of Related Debt	29,013,699	28,367,415	27,867,774
Unrestricted	15,150,634	15,170,314	15,132,595
Total Net Assets	44,164,333	43,537,729	43,000,369
Total Net Assets and Liabilities	$54,322,394	$52,301,825	$51,459,409

Condensed balance sheet highlights are as follows for the year ended December 31, 2005:

- Current assets increased $194,360. Current asset consist of cash and working funds, temporary investments (maturities of one year or less), accounts receivable, inventories, and prepayments.
- Non-current assets decreased during 2005 in the amount of $981,392. The increase was due to a shift of funds into investments with maturities greater than one year.
- Deferred expenses increased $322,000. Prepaid expenditures within this classification include preliminary survey and investigation charges, deferred water assessments, and expenditures for water tower maintenance. Painting of the downtown plant water storage tank in 2005 in the amount $332,368

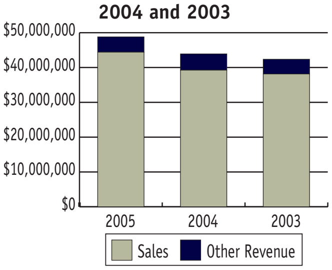
accounted for this increase.
• Current liabilities increased $1,567,012 at the end of 2005. This increase is the result of higher accounts payable at December 31, which is attributable to higher natural gas prices.
• Operating reserves, which include liabilities for employee sick pay benefits and health insurance, decreased $164,016. Operating reserves were $1,914,552 at December 31, 2005.
• Deferred credits were $120,969 more at the end of 2005 from the level at December 31, 2004. 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 $646,284. This increase is the result of investment in plant exceeding retirements and depreciation in the amount of $521,284 and the retirement of long term debt in the amount of $125,000. See Note 2 to the financial statements for more details related to changes in utility plant.
• Unrestricted net assets decreased $19,680 during 2005.

Condensed balance sheet highlights are as follows for the year ended December 31, 2004:

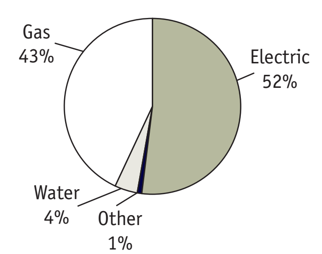
• The net assets of Austin Utilities exceeded liabilities at the close of 2004 in the amount of $43,537,729 (Net Assets). This is an increase of $537,360 over net assets at the close of 2003.
• Current assets increased $947,427. Current asset consist of cash and working funds, temporary investments (maturities of one year or less), accounts receivable, inventories, and prepayments.
• Non-current assets decreased during 2004 in the amount of $369,323. This decrease was due to a shift of funds into temporary investments from investments with maturities greater than one year.
• Deferred expenses fell $116,861. Prepaid expenditures within this classification include preliminary survey and investigation charges, deferred water assessments, and expenditures for a geothermal system for the Packer Arena. Payment of deferred assessments in the amount of $15,963 and amortization of the arena project during 2004 in the amount $96,667 accounted for this decrease.
• Current liabilities increased $516,551 at the end of 2004. This increase is the result of higher accounts payable at December 31, which is attributable to higher natural gas prices.
• Operating reserves, which include liabilities for employee sick pay benefits and health insurance, increased $58,227. Operating reserves were $2,078,568 at December 31, 2004.
• Deferred credits $144,722 less at the end of 2004 from the level at December 31, 2003. 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 $499,641. This increase is the result of investment in plant exceeding retirements and depreciation in the amount of $379,641 and the retirement of long term debt in the amount of $120,000. See Note 2 to the financial statements for more details related to changes in utility plant.
• Unrestricted net assets increased $37,719 during 2004.

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

Operating Revenue by Source
For Years Ending December 31, 2005, 2004 and 2003



Revenues by Source
For Year Ending December 31, 2005



The following table summarizes revenues, expenses, and changes in net assets of Austin Utilities for the years ended December 31, 2005, 2004, and 2003:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2005	2004	2003
Electric			
Operating Revenues, Electric Sales	$21,254,179	$20,314,535	$20,513,869
Other Electric Operating Revenues	4,422,859	4,488,944	4,076,769
Total Electric Operating Revenues	$25,677,038	$24,803,479	$24,590,638
Operating Expenses	25,304,717	24,866,520	24,449,868
Total Electric Operating Income	$372,321	$(63,041)	$140,770
Other Electric Income	245,192	391,647	130,591
Interest Expense, Net	(43,556)	(47,821)	(51,290)
Change in Net Assets, Electric	$573,957	$280,785	$220,071
Water			
Operating Revenues, Water Sales	$1,916,082	$1,885,137	$1,869,526
Other Water Operating Revenues	62,225	62,338	58,716
Total Water Operating Revenues	$1,978,307	$1,947,475	$1,928,242
Operating Expenses	1,868,610	1,819,181	2,037,383
Total Water Operating Income	$109,697	$128,294	$(109,141)
Other Water Income	83,750	92,510	48,223
Change in Net Assets, Water	$193,447	$220,804	$(60,918)
Gas			
Operating Revenues, Gas Sales	$21,244,660	$17,051,785	$15,771,454
Other Gas Operating Revenues	81,209	74,677	77,371
Total Gas Operating Revenues	$21,325,869	$17,126,462	$15,848,825
Operating Expenses	21,640,492	17,278,233	15,832,018
Total Gas Operating Income	$(314,623)	$(151,771)	$16,807
Other Gas Income	176,311	190,420	104,955
Interest Expense, Net	(2,488)	(2,878)	(2,809)
Change in Net Assets, Gas	$(140,800)	$35,771	$118,953
Total Change in Net Assets	$626,604	$537,360	$278,106
Beginning Net Assets	$43,537,729	$43,000,369	$42,722,263
Change in Net Assets	626,604	537,360	278,106
Ending Net Assets	$44,164,333	$43,537,729	$43,000,369

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

Electric

2005 Compared to 2004

• Revenue from electric sales increased in the amount of $939,644. Other electric operating revenue fell $66,085. A more normal summer resulted in increased sales of electricity, sales by volume increased 3.92 percent in 2005. The bulk of the decrease in other electric revenues was due to the decrease in the rebates received from SMMPA for various motor and lighting projects completed for our commercial customers.
• Operating expenses increased $438,197 in 2005. Power production and supply expenditures increased $480,112 due to the increase sales of electricity in 2005. Steam power generation expenses increased $48,985, distribution expenditures decreased $78,353 and other operating expenses decreased $2,821.
• Other electric income decreased $146,445. The 2004 disaster payment received from FEMA for the damage caused by the flood in 2004 accounted for the majority of this decrease. There were no disaster payments in 2005. In addition, the market value of total invested funds fell $162,221 due to their valuation at December 31, 2005.
• Interest expense was reduced $4,265 due to the reduction of long term debt on electric revenue bonds in the amount of $125,000.

2004 Compared to 2003

• Revenue from electric sales decreased in the amount of $199,335. Other electric operating revenue increased $412,174. A cool, wet summer resulting in reduced sales of electricity caused the drop in sales revenue. The bulk of the increase in other electric revenue was the result of higher revenue from the Capacity Purchase Agreement with the Southern Minnesota Municipal Power Agency (SMMPA) for dedicated generation resources at the Northeast and Downtown Power stations.
• Operating expenses increased $416,652 in 2004. Power production and supply expenditures fell $93,149 and other operating expense dropped $76,083. Electric distribution costs increased $433,718, primarily due to increased maintenance to

substations, overhead and underground lines-some of which was the result of record flooding in September of 2004.

• Other income jumped $84,193 due to increased yields on invested funds. Projected FEMA payments for damage caused by the flood of 2004 resulted the booking of miscellaneous income in the amount of $176,863.

Water

2005 Compared to 2004

• Revenue from the sale of water increased $30,945. Other water revenue increased slightly in the amount of $113. Sales of water by volume increased due to the more normal summer and the increased usage by customers.

• Operating expenses increased $49,429. This increase was the result of increased power purchased for pumping due to the more normal summer. Water treatment expenses also increased due to the additional volume of water being sold in 2005. Both distribution expenses and other operating expenses decreased in 2005 as a result of reduced spending in these accounts.

• Other income fell $8,760. This decrease was the result of the 2004 disaster payment received from FEMA due to the 2004 flood.

2004 Compared to 2003

• Revenue from the sale of water increased $15,611. Other water revenue increased slightly in the amount of $3,622. While sales of water by volume decreased due to a cool, wet summer, an increase in the fee charged for the repair of customer owned water services was increased in 2004 offsetting lost revenue from the water sold.

• Operating expenses fell $218,202. This decrease was the result of reduced spending in water distribution in the amount of $244,645.

• Other income jumped $44,287 due to higher yields on invested funds and projected reimbursements of flood expenditures from FEMA in the amount of $10,405.

Gas

2005 Compared to 2004

• Revenue from the sale of natural gas increased $4,192,875 in 2005. Other gas revenues increased slightly in the amount of $6,532. Sales of gas by volume increased 3.5 percent in 2005. Extremely high natural gas prices throughout 2005 resulted in passing this on to customer through a purchase gas adjustment; this cost adjustment was 25.5 percent higher in 2005 than in 2004. The increase due to price resulted in an increase in revenue of $3,549,556.

• Operating expenses increased $4,362,259 in 2005. The price of natural gas purchased in 2005 was 26.3 percent higher than 2004 which accounted for $4,330,367 of additional expense..

• Other gas income decreased $14,109. The bulk of this decrease was the result of the 2004 disaster payment received from FEMA due to the 2004 flood.

2004 Compared to 2003

• Revenue from the sale of natural gas increased $1,280,331 in 2004. Other gas revenue dropped marginally in the amount of $2,694. While sale of gas by volume decreased 5 percent, stubbornly high natural gas prices, passed on to customers through a purchase gas adjustment, resulted in an increase due to price in the amount of $1,430,554.

• Operating expenses increased $1,446,215–nearly all of this increase was due to the cost of gas supply which increased $1,357,498.

• Other income increased $64,658 due to higher investment income. Income resulting from reimbursement of flood expenditures from FEMA resulted in miscellaneous income in the amount of $20,807.

Combined Utilities

2005 Compared to 2004

• The total change in net assets in 2005 was an increase in the amount of $626,604 as compared to an increase of $537,360 in 2004. The 2005 increase is the result of combined operating income in the amount of $167,395 and other income in the amount of $505,253, and was reduced by interest expense in the amount of $46,044.

2004 Compared to 2003

The total change in net assets in 2004 was an increase of $537,360 as compared to an increase of $278,106 in 2003. The 2004 increase is the result of combined loss in operating income in the amount of $86,518, other income in the amount of $466,503, miscellaneous income of $208,074, and was reduced by interest expense in the amount of $50,699.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

The Utilities investment in capital assets as of December 31, 2005 amounts to $29,846,663 (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 station equipment relating to the 69kv relay control modifications to improve reliability; and in meters relating to the continuing program to install ERT meters, meters with automatic reading devices. In the water and gas utilities the most significant increases occurred in the infrastructure installation of mains and services. In the general plant the most significant increases were in replacement of vehicles and equipment, and also a radio upgrade and repeater for improved communications and safety.

	2005	2004	Dollar Change
Land and Land Rights	$363,956	$363,956	$ -
Electric Plant in Service	12,929,597	13,030,065	(100,468)
Water Plant in Service	5,608,488	5,329,606	278,882
Gas Plant in Service	6,653,020	6,541,478	111,542
General Plant in Service	4,291,602	4,058,741	232,861
	$29,846,663	$29,323,846	$522,817

	2004	2003	Dollar Change
Land and Land Rights	$363,956	$362,506	$1,450
Electric Plant in Service	13,030,065	13,163,959	(133,894)
Water Plant in Service	5,329,606	4,941,872	387,734
Gas Plant in Service	6,541,478	6,441,258	100,220
General Plant in Service	4,058,741	4,033,078	25,663
	$29,323,846	$28,942,673	$381,173

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

Long-Term Debt

• In 2005 long term debt decreased in the amount of $130,000 for a substation financing in 2001, and stood at $740,000 at December 31, 2005. In 2004 long term debt decreased in the amount of $125,000 and stood at $870,000 at December 31, 2004. See Note 8 to the financial statements for more details related to changes in debt.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Austin Utilities is currently under going a Cost-of-Service and Unbundled Rate Design Study with R.W. Beck in St. Paul, Minnesota. Our wholesale power provider, SMMPA has passed a 21.9% rate increase on to Austin Utilities in 2006. In addition, the high natural gas prices continue to effect our purchased gas adjustment passed on to our customers.

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 request for additional information should be addressed to the Finance Manager, 400 4th Street NE, Austin, MN 55912.

Balance Sheets

ASSETS	Year Ended December 31 2005	2004
UTILITY PLANT:		
Plant in Service	$70,466,282	$68,588,499
Less Accumulated Depreciation	(40,619,619)	(39,264,653)
Net Utility Plant	$29,846,663	$29,323,846
OTHER PROPERTY & INVESTMENTS:		
Non-Utility Property (Net of Accumulated Depreciation)	$37,036	$38,569
Shared Savings Loans	12,114	61,792
Special Funds	4,379,429	4,240,403
Bond Funds	131,583	133,566
Other Investments	8,800,492	7,904,932
Total Other Property and Investments	$13,360,654	$12,379,262
CURRENT ASSETS:		
Cash and Cash Equivalents	$4,908,045	$5,166,716
Accounts Receivable (Less Allowance For Uncollectibles of $100,000 in 2005 and 2004)	3,744,812	2,910,562
Shared Savings Loans Receivable (Less Allowance for Uncollectible Accounts of $5,000 in 2005 and $20,000 in 2004)	44,677	100,803
Other Accounts Receivable (less Allowance For Uncollectibles of $2,000 in 2005 and 2004)	141,440	575,554
Inventories	1,524,975	1,442,031
Prepaid Expenses	254,980	228,903
Total Current Assets	$10,618,929	$10,424,569
DEFERRED CHARGES	496,148	174,148
Total Assets	$54,322,394	$52,301,825
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in Utility Plant, net of related debt	$29,013,699	$28,367,415
Unrestricted	15,150,634	15,170,314
Net Assets	$44,164,333	$43,537,729
LONG-TERM LIABILITIES		
Bonds Payable	$740,000	$870,000
OPERATING RESERVES	$1,914,552	$2,078,568
CURRENT LIABILITIES:		
Accounts Payable	$5,764,407	$4,228,400
Accrued Expenses	878,429	878,041
Current Portion of Bonds Payable	130,000	125,000
Other Current Liabilities	228,995	203,378
Total Current Liabilities	$7,001,831	$5,434,819
DEFERRED CREDITS		
Unearned Revenue	$501,678	$380,709
Total Net Assets and Liabilities	$54,322,394	$52,301,825

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31 2005	2004
OPERATING REVENUES		
Sales	$44,414,921	$39,251,457
Forfeited Discounts	197,224	177,714
Other Operating Revenues	4,369,069	4,448,245
Total Operating Revenues	$48,981,214	$43,877,416
OPERATING EXPENSES		
Purchases	$33,685,600	$28,873,985
Production	4,135,080	4,012,451
Distribution	3,954,751	3,980,146
Other Operating Expenses	7,038,388	7,097,352
Total Operating Expenses	$48,813,819	$43,963,934
OPERATING INCOME (LOSS)	$167,395	($86,518)
OTHER REVENUES (EXPENSES)		
Merchandising Contract Work	$25,995	$ 3,914
Disaster Payments or Grants	-	208,074
Investment Income	470,526	467,478
Interest Expense	(41,813)	(46,468)
Other Expenses	(4,231)	(4,231)
Gain (Loss) on Disposal of Property	8,732	(4,889)
Total Other Revenues (Expenses)	$459,209	$623,878
CHANGE IN NET ASSETS	$626,604	$537,360
NET ASSETS, BEGINNING	43,537,729	43,000,369
NET ASSETS, ENDING	$44,164,333	$43,537,729

See accompanying notes to Basic Financial Statements.

Statements of Cash Flows

	Year Ended December 31 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$43,854,277	$39,072,703
Cash received from others	44,628,542	4,360,029
Cash paid to suppliers	(37,467,900)	(34,056,271)
Cash paid to employees	(6,705,982)	(6,328,375)
Payments in lieu of property taxes	(1,563,949)	(1,522,048)
Net Cash Provided by Operating Activities	2,744,988	1,526,038
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Interest Paid on Customer Deposits	(5,794)	(5,637)
Proceeds from merchandising contract work	25,995	3,914
Net Cash Provided (Used) by Non-Capital Financing Activities	20,201	(1,723)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction and Acquisition of Plant	(2,336,181)	(2,053,432)
Proceeds from Sale of Equipment	18,574	1,554
Interest Expense	(38,233)	(41,953)
Principal Payment on Bonds	(125,000)	(120,000)
Net Cash Used by Capital & Related Financing Activities	(2,480,840)	(2,213,831)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Other Investments and Special Funds	(1,194,824)	226,333
Change in Shared Savings Loans Receivable	49,678	120,802
Interest Income	602,126	491,981
Net Cash Provided (Used) by Investing Activities	(543,020)	839,116
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(258,671)	149,600
Cash and Cash Equivalents - Beginning	5,166,716	5,017,116
CASH AND CASH EQUIVALENTS - ENDING	$4,908,045	5,166,716
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$167,395	$(86,518)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,805,055	1,667,348
Decrease (Increase) in Deferred Charges	(326,231)	112,630
Increase (Decrease) in Deferred Credits	120,969	(144,722)
Increase (Decrease) in Operating Reserves	(164,016)	58,227
(Increase) Decrease in:		
Customer Accounts Receivable	(834,250)	(381,062)
Shared Savings Receivable	56,126	19,035
Other Accounts Receivable	464,735	(60,355)
Materials and Supplies Inventory	(82,944)	(156,822)
Prepaid Expenses	(26,077)	(14,396)
Increase (Decrease) in:		
Accounts Payable	1,536,007	472,104
Accrued Expenses	2,602	42,900
Other Liabilities	25,617	(2,331)
Net Cash Provided by Operating Activities	$2,744,988	$1,526,038
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash Transactions		
Change in Fair Value of Investments	$(162,221)	$(20,656)

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.

This financial report has been prepared in conformity with GASB Statement No. 34 Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments, issued in June 1999.

Financial Reporting Entity

Austin Utilities is an enterprise fund of the City of Austin, MN 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 to 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 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 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 of 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Continued

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 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. Sixty-three individuals are currently receiving benefits under this plan. The total costs for those benefits were $567,812 in 2005 and $444,776 in 2004.

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 is 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 $1,555,159 and $1,514,636 in 2005 and 2004, respectively.

Economic Dependency
During the years ended December 31, 2005 and 2004, net sales to Hormel Foods Corporation amounted to $10,387,100 and $8,640,388, 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 $86,380,418.

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, 2005.

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.

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.

NOTE 2 DETAIL OF UTILITY PLANT

Utility plant activity was as follows:

As of Dec. 31, 2005	Beginning Balances	Additions	Retirements	Ending Balance
Land & Land Rights	$363,956	$ –	$ –	$363,956
Utility plant in service	68,224,543	2,336,183	(458,400)	70,102,326
Less Accumulated Depreciation for Utility Plant in Service	(39,264,653)	(1,803,522)	448,556	(40,619,619)
Capital Assets, Net	$29,323,846	$532,661	$(9,844)	$29,846,663

As of Dec. 31, 2004	Beginning Balances	Additions	Retirements	Ending Balance
Land & Land Rights	$362,506	$1,450	$ –	$363,956
Utility plant in service	66,529,869	2,017,055	(322,381)	68,224,543
Less Accumulated Depreciation for Utility Plant in Service	(37,949,702)	(1,665,815)	350,864	(39,264,653)
Capital Assets, Net	$28,942,673	$352,690	$28,483	$29,323,846

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, 2005 and 2004:

	2005	2004
Employee Sick Pay Benefits Fund	$1,725,328	$1,761,876
General Liability Insurance Fund	1,105,240	1,124,490
Flexible Spending Account	29,161	29,000
U.S. Savings Bond Fund	125	171
Operations & Maintenance, Repairs & Restorations - Capacity Purchase Agreements	501,678	380,709
Self-funded Health Insurance Fund	1,017,897	944,157
	$4,379,429	$4,240,403

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 City deposits 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 safe keeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

The Utilities' deposits at December 31, 2005 and 2004 were entirely covered by Federal Depository Insurance or by collateral held by the Utilities' custodial bank in the Utilities' name.

NOTE 4 DEPOSITS AND INVESTMENTS
Continued

Investments:
The City 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 the 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 by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment Contracts guaranteed by United States commercial bank, domestic branch of foreign bank or a United States insurance company, and with a credit quality in one of the top two highest categories.
- Repurchase or reverse repurchase 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, 2005:

		Investment Maturities in Years			
	Fair Value	Less Than 1	1-5 Years	6-10 Years	More 10
Federal Home Loan Bank Notes	$6,976,870	$498,440	$3,357,846	$2,640,584	$480,000
Federal National Mortgage Association Notes	1,964,070		984,380	979,690	
Federal Home Loan Mortgage Corporate Discount Notes	2,821,703		690,725	1,647,568	483,410
	$11,762,643	$498,440	$5,032,951	$5,267,842	$963,410,

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.

Credit Risk
As of December 31, 2005, the Utilities' investments in 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.

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:

	2005	2004
Federal Home Loan Bank Notes	$4,536,968	$6,605,826
Federal Home Loan Mortgage Corporate Discount Notes	2,338,293	2,369,360
Federal National Mortgage Association Notes	1,964,070	-
	$8,839,331	$8,975,186

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, 2005, the Utilities did not have any such arrangements.

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

	2005	2004
Deposits	$6,456,906	$6,520,753
Federal Home Loan Bank Notes	6,976,870	8,069,184
Federal National Mortgage Association Notes	1,964,070	-
Federal Home Loan Mortgage Corporate Discount Notes	2,821,703	2,855,680
	$18,219,549	$17,445,617

Balance Sheet:		
Cash and Cash Equivalents	$4,908,045	$5,166,716
Special Funds	4,379,429	4,240,403
Bond Funds	131,583	133,566
Other Investments	8,800,492	7,904,932
Total	$18,219,549	$17,445,617

NOTE 5 SHARED SAVINGS LOANS

Shared savings loans consist of consumer loans to utility customers for use in the purchase of equipment to decrease utility costs. As of December 31, 2005 and 2004, the balance of the shared savings loans are as follows:

	2005	2004
Balance	$66,791	$202,595
Less Current Portion	49,677	120,803
Plus Allowance for Loan Loss	(5,000)	(20,000)
Non-Current Portion	$12,114	$61,792

NOTE 6 INVENTORIES

Inventories consist of the following at December 31, 2005 and 2004:

	2005	2004
Fuel Oil	$1,940	$1,268
Plant Materials & Operating Supplies	1,523,035	1,440,763
	$1,524,975	$1,442,031

NOTE 7 DEFERRED CHARGES

Deferred charges consist of the following at December 31, 2005 and 2004:

	2005	2004
Water Tower Maintenance	$332,368	$ -
Deferred Special Assessment	139,802	145,939
Debt Issuance Costs	23,978	28,209
	$496,148	$174,148

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 8 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, 2005 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	$870,000
Less: Current Portion					130,000
					$740,000

Minimum future payments consist of the following:

Year Ended December 31	Principal	Interest
2006	$130,000	$34,045
2007	135,000	29,495
2008	140,000	24,500
2009	150,000	19,075
2010	155,000	13,075
2011	160,000	6,720
	$870,000	$126,910

NOTE 9 OPERATING RESERVES

Operating reserves consist of the following at December 31, 2005 and 2004:

	2005	2004
Employee Sick Pay Benefits Payable	$1,787,971	$1,808,140
Self-funded Health Insurance	126,581	270,428
	$1,914,552	$2,078,568

The reserve for employee sick pay benefits payable consisted of $1,787,971 and $1,808,140 as of December 31, 2005 and 2004, 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 at least 80% of the accumulated sick pay benefits. At December 31, 2005 and 2004, the Utilities had specifically restricted investments totaling $1,725,328 and $1,761,876 respectively, or 96% and 97% in 2005 and 2004 of the accumulated benefits.

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

NOTE 10 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Plan Descriptions:
All full-time and certain part-time employees of the Austin Utilities are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA).

Plan Description:
The Utilities contributes to the Public Employees Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERF provides retirement, disability, and death benefits to plan members and beneficiaries. Benefits are established by State Statute and vested after three years of credited service. Members belong to either the Basic Plan or Coordinated Plan. Coordinated Plan members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. PERA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting PERA, 60 Empire Drive #200, St. Paul, Minnesota 55103-2088, or by calling (651) 296-7460 or (800) 652-9026.

Funding Policy:
Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10%, respectively, of the annual covered salary and the Utilities is required to contribute at an actuarially determined rate. The current rate is 11.78% for Basic Plan members and 5.53% for Coordinated Plan members. The contribution requirements of the plan members and the Utilities are established and may be amended by State Statute. The Utilities' contributions to PERF for the years ending December 31, 2005, 2004, and 2003 were $345,242, $343,282, and $337,686, respectively, equal to the required contributions for each year.

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 $501,678 and $380,709 at December 31, 2005 and 2004, respectively.

Self-Insurance

The Utilities maintains a self-insurance program for its general liability insurance and has restricted assets of $1,105,240 and $1,124,490 for self-insurance at December 31, 2005 and 2004. There were no outstanding claims at December 31, 2005 and 2004.

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 $1,338,873.

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	$270,428
Incurred Claims	1,068,445
Claims Paid	(1,212,292)
Unpaid Claims, End of Year	$126,581

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