

**AUSTIN UTILITIES**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2017 AND 2016**



**AUSTIN UTILITIES  
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DECEMBER 31, 2017 AND 2016**

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## **INTRODUCTION SECTION**

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**AUSTIN UTILITIES  
ORGANIZATION SCHEDULE  
DECEMBER 31, 2017**

**Board of Commissioners**

**Term Expires**

Jeanne Sheehan	President	December 31, 2018
Tyler Hulsebus	Member	December 31, 2020
Tom Baudler	Member	December 31, 2020
Geoff Baker	Member	December 31, 2018
Tom Sherman	Member	December 31, 2020

**Officers**

Mark Nibaur	General Manager
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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Austin Utilities  
Austin, Minnesota

### Report on the Financial Statements

We have audited the accompanying 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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Austin Utilities, an enterprise fund of the City of Austin, state of Minnesota, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of a Matter**

As discussed in Note 1, the financial statements present only the Austin Utilities fund and do not purport to, and do not, present fairly the net positions of the City of Austin, Minnesota, as of December 31, 2017 and 2016 and the changes in its net position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress for Postemployment Benefit Plan, the Schedule of the Utilities' Proportionate Share of the Net Pension Liability, and the Schedule of Utilities' Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Austin Utilities' basic financial statements as a whole. The Supplementary Combining Schedules of Revenues, and Expenses and Supplementary Schedules of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Board of Commissioners  
Austin Utilities

The Supplementary Combining Schedules of Revenues, and Expenses and Supplementary Schedules of Operating Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Combining Schedules of Revenues, and Expenses and Supplementary Schedules of Operating Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
February 26, 2018

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**FINANCIAL STATEMENTS OVERVIEW**

This discussion and analysis of Austin Utilities' performance provides an overview of the Utilities' activities for the year ended December 31, 2017. 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 statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows.

The statement of net position provides information about the nature of assets, deferred outflows of resources, obligations (liabilities), deferred inflows of resources, and net position of Austin Utilities as of the end of the year. The statement of revenues, expenses, and changes in net position reports revenues and expenses for the current year. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital related, capital, and related financing activities, and investing activities.

**FINANCIAL HIGHLIGHTS**

- The net position of Austin Utilities at the close of 2017 was \$60,109,683. This is an increase of \$553,028.
- By far the largest portion of Austin Utilities net position (71%) 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.
- Cash flows from operations covered plant needs as capital outlay for 2017 were \$3,476,820. The electric department had capital outlay of \$1,380,200 which included outlays for substation improvements, line transformers, meters, load management devices, new services, developments, line extensions, and conversions. The water department had capital outlay of \$1,521,213 which included \$639,688 for main extensions, replacements, and hydrants and \$881,525 for well rehabilitations, monitoring wells and meters. The water department installed over 11,436 feet of new water main during 2017. The gas department had capital outlay of \$393,662, which included \$137,314 for meters, \$208,751 for mains and services and \$47,597 for the relocation and construction of DRS#19. The gas department installed over 5,585 feet of new gas main in 2017. General Plant capital outlay was \$181,745 in 2017 which included outlays for vehicles and power operated equipment, communications equipment, laboratory equipment, tools, shop and garage equipment, office equipment and miscellaneous equipment.

**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

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

**Condensed Balance Sheets**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital Assets, Net	\$ 64,166,751	\$ 64,582,972	\$ 58,059,754
Current Assets	16,439,632	19,166,360	16,031,290
Noncurrent Assets	17,604,323	13,597,007	22,380,047
Other Assets	<u>710,047</u>	<u>879,458</u>	<u>1,057,490</u>
Total Assets	98,920,753	98,225,797	97,528,581
Deferred Outflows of Resources	<u>1,457,305</u>	<u>3,307,542</u>	<u>709,636</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 100,378,058</u>	<u>\$ 101,533,339</u>	<u>\$ 98,238,217</u>
Current Liabilities	\$ 8,267,660	\$ 7,470,405	\$ 7,966,147
Long-Term Liabilities			
Accrued Sick Leave	1,764,819	1,835,191	1,893,004
Long-Term Debt	20,200,698	21,258,753	22,301,807
Net Pension Liability	5,981,746	7,973,353	5,125,511
OPEB Liability	<u>2,641,252</u>	<u>2,415,297</u>	<u>2,156,939</u>
Total Liabilities	<u>38,856,175</u>	<u>40,952,999</u>	<u>39,443,408</u>
Deferred Inflows of Resources	1,412,200	1,023,685	783,359
Net Position			
Net Investment in Capital Assets	42,931,053	42,304,219	44,168,766
Restricted	-	-	53,703
Unrestricted	<u>17,178,630</u>	<u>17,252,436</u>	<u>13,788,981</u>
Total Net Position	<u>60,109,683</u>	<u>59,556,655</u>	<u>58,011,450</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 100,378,058</u>	<u>\$ 101,533,339</u>	<u>\$ 98,238,217</u>

Condensed statement of net position highlights are as follows for the year ended December 31, 2017:

- Current assets decreased \$2,726,728. Current asset consist of cash and working funds, temporary investments (maturities of one year or less), accounts receivable, inventories, and prepayments.
- Noncurrent assets increased during 2017 in the amount of \$4,007,316. The increase was due to the increase in Other Investments and Investments-Capital Improvements Fund.
- Other Assets decreased \$169,411. Prepaid expenses within this classification include preliminary survey and investigation charges, unavailable water assessments, and expenses for water tower maintenance. Water tower maintenance expenses decreased \$167,690 and unavailable assessments decreased \$1,721.
- Deferred Outflows of Resources, Pension Related decreased \$1,850,237 in 2017.

**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

- Current liabilities increased \$797,255 at the end of 2017. The increase was due to the increase in accounts payable. This also includes the current portion of GO Water Revenue Bonds, Series 2012A of \$360,000 and the current portion of the GO Capital Improvement Plan Bonds, Series 2015A of \$675,000.
- Long-Term Debt decreased \$1,058,055.
- Net Pension Liability decreased \$1,991,607 in 2017.
- Other Postemployment Benefits Liability increased \$225,955 in 2017.
- Accrued sick leave decreased \$70,372 in 2017.
- Deferred Inflows of Resources increased \$388,515 in 2017.
- Net position increased \$553,028 in 2017.

Condensed statement of net position highlights are as follows for the year ended December 31, 2016:

- Current assets increased \$3,135,070. Current asset consist of cash and working funds, temporary investments (maturities of one year or less), accounts receivable, inventories, and prepayments.
- Noncurrent assets decreased during 2016 in the amount of \$8,783,040. The decrease was due to the decrease in investments for the Bond Funds relating to the GO CIP Bonds, Series 2015 issued in June 2015. The remaining bond proceeds were used to complete construction on the Central Facility.
- Other Assets decreased \$178,032. Prepaid expenses within this classification include preliminary survey and investigation charges, unavailable water assessments, and expenses for water tower maintenance. Water tower maintenance expenses decreased \$167,690 and unavailable assessments decreased \$10,342.
- Deferred Outflows of Resources increased \$2,597,906 in 2016.
- Current liabilities decreased \$495,742 at the end of 2016. The decrease was due to the decrease in accounts payable and accrued expenses. This also includes the current portion of GO Water Revenue Bonds, Series 2012A of \$355,000 and the current portion of the GO Capital Improvement Plan Bonds, Series 2015A of \$665,000.
- Long-Term Debt decreased \$1,043,054.
- Net Pension Liability increased \$2,847,842 in 2016.
- Other Postemployment Benefits Liability increased \$258,358 in 2016.
- Accrued sick leave decreased \$57,813 in 2016.
- Deferred Inflows of Resources increased \$240,326 in 2016.
- Net position increased \$1,545,205 in 2016.

**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

The following chart summarizes operating revenue and source by utility:



**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

The following table summarizes revenues, expenses, and changes in net position of Austin Utilities for the years ended December 31, 2017, 2016 and 2015:

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	2017	2016	2015
<b>Electric</b>			
Operating Revenues, Electric Sales	\$ 35,895,162	\$ 36,080,194	\$ 34,400,002
Other Electric Operating Revenues	829,036	544,773	890,017
Total Electric Operating Revenues	36,724,198	36,624,967	35,290,019
Operating Expenses	35,832,890	35,656,770	33,291,844
Total Electric Operating Income	891,308	968,197	1,998,175
Other & Misc Electric Income (Expense)	(287,787)	152,443	46,699
Interest Expense	(222,829)	(97,025)	(127,978)
Capital Contributions in Aid of Construction	25,746	197,372	37,880
Transfer Out	-	(241,660)	-
Change in Net Position, Electric	406,438	979,327	1,954,776
<b>Water</b>			
Operating Revenues, Water Sales	4,738,228	4,463,570	4,208,055
Other Water Operating Revenues	63,064	50,221	74,558
Total Water Operating Revenues	4,801,292	4,513,791	4,282,613
Operating Expenses	4,188,708	3,982,663	3,790,574
Total Water Operating Income	612,584	531,128	492,039
Other & Misc Water Income (Expense)	(103,030)	53,273	17,420
Interest Expense	(157,817)	(68,669)	(133,462)
Capital Contributions in Aid of Construction	32,726	37,368	377,430
Transfer Out	-	(89,309)	-
Change in Net Position, Water	384,463	463,791	753,427
<b>Gas</b>			
Operating Revenues, Gas Sales	16,409,720	15,334,410	15,810,706
Other Gas Operating Revenues	70,112	64,081	85,328
Total Gas Operating Revenues	16,479,832	15,398,491	15,896,034
Operating Expenses	16,324,658	15,182,408	15,072,131
Total Gas Operating Income	155,174	216,083	823,903
Other & Misc Gas Income (Expense)	(229,153)	124,270	37,160
Interest Expense	(179,644)	(78,087)	(102,989)
Capital Contributions in Aid of Construction	15,750	34,200	12,750
Transfer Out	-	(194,379)	-
Change in Net Position, Gas	(237,873)	102,087	770,824
Total Change in Net Position	\$ 553,028	\$ 1,545,205	\$ 3,479,027
Beginning Net Position	\$ 59,556,655	\$ 58,011,450	\$ 59,658,782
Restatement	-	-	(5,126,359)
Change in Net Position	553,028	1,545,205	3,479,027
Ending Net Position	\$ 60,109,683	\$ 59,556,655	\$ 58,011,450

**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

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

**Electric**

**2017 Compared to 2016**

- Revenue from electric sales decreased in the amount of \$185,032. Other electric operating revenue increased \$284,263. Total revenue per unit increased 3.80% from a unit price of \$0.1065 in 2016 to \$0.1069 a result of the Purchased Cost Adjustment (PCA). The increase in other electric revenues was a result of an increase in rebate reimbursements received by our wholesale provider SMMPA for energy conservation measures taken by our customers.
- Operating expenses increased \$176,120 in 2017. Steam power generation expenses decreased \$310,456 due to decreased operating costs of the electric plant as the Northeast Power Plant is in the process of being decommissioned. Power supply expenses increased \$231,804 due to a 1.0% rate increase from our wholesale provider SMMPA and a change in the on-peak hours. Distribution expenditures increased \$121,303 due to the increase in maintenance of station equipment. Other operating expenses increased \$133,469 a result of the increase in customer accounts expenses for conserve and save rebates to Austin Utilities customers.
- Other & Misc. Electric Income decreased \$440,230 a result of retiring the Wi-Fi infrastructure.
- Interest expense increased \$125,804.
- Capital contributions in aid of construction decreased \$171,626 in 2017.

**Electric**

**2016 Compared to 2015**

- Revenue from electric sales increased in the amount of \$1,680,192. Other electric operating revenue decreased \$345,244. Total revenue per unit increased 3.90% from a unit price of \$0.1025 in 2015 to \$0.1065 as a result of the Purchased Cost Adjustment (PCA) that was approved at the November 2015 board meeting. The decrease in other electric revenues was a result of a reduction in rebate reimbursements received by our wholesale provider SMMPA for energy conservation measures taken by our customers.
- Operating expenses increased \$2,364,926 in 2016. Steam power generation expenses decreased \$234,292 due to decreased operating costs of the electric plant as the Northeast Power Plant is in the process of being decommissioned. Power supply expenses increased \$2,328,512 due to a 6.0% rate increase from our wholesale provider SMMPA. Distribution expenditures increased \$57,890 due to the increase in maintenance of underground lines. Other operating expenses increased \$212,917 a result of the increase in depreciation expenses due to the construction of the Austin Utilities new Central Facility.
- Other & Misc. Electric Income increased \$105,744.
- Interest Expense decreased \$30,953
- Capital contributions in aid of construction increased \$159,492 in 2016.

**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

**Water**

**2017 Compared to 2016**

- Revenue from the sale of water increased \$274,658. Other water revenue increased in the amount of \$12,843. Total revenue per unit increased 6.2% from a unit price of \$1.7469 in 2016 to \$1.8557 as a result of the rate increase approved at the December 2016 board meeting. The increase in other water revenues was due to refund from the Minnesota Department of Revenue for state sales taxes paid.
- Operating expenses increased \$206,045. Water production increased due to an increase in power purchased for pumping, chemicals, and maintenance of structures. Distribution expenses increased due to additional water services that were maintained in 2017. There were 24 water main breaks repaired in 2017 compared to 9 water main breaks in 2016. In 2017, 88 customer-owned water service lines were repaired or replaced compared to 49 in 2016. Other operating expenses increased as a result of increased depreciation expenses.
- Other & Misc. Water Income decreased \$156,303 in 2017.
- Interest expense increased \$89,148.
- Capital contributions in aid of construction decreased \$4,642 in 2017.

**Water**

**2016 Compared to 2015**

- Revenue from the sale of water increased \$255,515. Other water revenue decreased in the amount of \$24,337. Total revenue per unit increased 9.6% from a unit price of \$1.5946 in 2015 to \$1.7469 as a result of the rate increase approved at the November 2015 board meeting. The decrease in other water revenues was due to a decrease in the number of water taps done for customers and forfeited discounts.
- Operating expenses increased \$192,089. Water production decreased due to a decrease in power purchased for pumping, pumping labor, and maintenance of structures. Distribution expenses increased due to additional labor that was charged to this area in 2016. There were 9 water main breaks repaired in 2016 compared to 19 water main breaks in 2015. In 2016, 49 customer-owned water service lines were repaired or replaced compared to 42 in 2015. Other operating expenses increased as a result of increased depreciation expenses.
- Other & Misc. Water Income increased \$35,853 in 2016.
- Interest expense decreased \$64,793.
- Capital contributions in aid of construction decreased \$340,062 in 2016.

**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

**Gas**

**2017 Compared to 2016**

- Revenue from the sale of natural gas increased \$1,075,310 in 2017 as a result of the 3.0% rate increase approved at the December 2016 board meeting. The volume of gas sold increased 3.4% in 2017 as we had a more typical winter. Total revenue per unit increased 3.5% from a unit price of \$6.8258 in 2016 to \$7.0647 in 2017.
- Operating expenses increased \$1,142,250 in 2017. The price of natural gas purchased in 2017 was 11.7% higher than 2016, this accounted for \$1,419,255 of increased expenses. Local storage expenses decreased \$23,203. Distribution expenses decreased \$81,834. Other operating expenses decreased \$171,968 a result of the savings of not heating the downtown plant properties and Northeast Power Plant in 2017, as well as fewer natural gas rebates processed during the year.
- Other & Misc. Gas Income decreased \$353,423 in 2017.
- Interest expense increased \$101,557.
- Capital contributions in aid of construction decreased \$18,450 in 2017.

**Gas**

**2016 Compared to 2015**

- Revenue from the sale of natural gas decreased \$476,296 in 2016. The volume of gas sold decreased 4.0% in 2016 as we had a mild winter. Total revenue per unit increased 1.03% from a unit price of \$6.7564 in 2015 to \$6.8258 in 2016. The change in revenue due to volume decreased sales by \$757,582 in 2016.
- Operating expenses increased \$110,277 in 2016. The price of natural gas purchased in 2016 was 5.3% lower than 2015, this accounted for \$699,720 of decreased expenses. Local storage expenses increased \$16,248. Distribution expenses increased \$134,736. Other operating expenses increased \$659,011 a result of increased expenses in customer assistance expenses relating to rebates given to customers for energy conservation efforts in 2016 and higher depreciation expenses.
- Other & Misc. Gas Income increased \$87,110 in 2016.
- Interest expense decreased \$24,902.
- Capital contributions in aid of construction increased \$21,450 in 2016.

**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

**Combined Utilities**

**2017 Compared to 2016**

- The total change in net position in 2017 was an increase in the amount of \$553,028 as compared to an increase of \$1,545,205 in 2016. The 2017 increase is the result of combined operating income in the amount of \$1,659,066 and capital contributions in aid of construction in the amount of \$74,222 and reduced by other & miscellaneous income (expenses) of \$619,970 and interest expense in the amount of \$560,290.

**Combined Utilities**

**2016 Compared to 2015**

- The total change in net position in 2016 was an increase in the amount of \$1,545,205 as compared to a decrease of \$1,647,332 in 2015, which included a restatement for GASB No. 68 in the amount of \$5,126,359. The 2016 increase is the result of combined operating income in the amount of \$1,715,408 and other & miscellaneous income and capital contributions in aid of construction in the amount of \$598,926 and reduced by interest expense in the amount of \$243,781 and a transfer out of \$525,348.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

- The Utilities investment in capital assets as of December 31, 2017 amounts to \$64,166,751 (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 and station equipment. In the water utility the most significant increases occurred in infrastructure installation of mains and meters. In the gas utility the most significant increases occurred in the infrastructure installation of mains and services. The general plant increases occurred in structures and improvements.

**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

**Capital Assets (Continued):**

**AUSTIN UTILITIES CAPITAL ASSETS  
(Net of Depreciation)**

	2017	2016	Dollar Change
Land and Land Rights	\$ 837,874	\$ 837,874	\$ -
Electric Plant in Service	16,280,801	16,200,734	80,067
Water Plant in Service	19,140,315	18,096,558	1,043,757
Gas Plant in Service	7,751,177	7,727,106	24,071
General Plant in Service	20,156,584	21,720,700	(1,564,116)
	<u>\$ 64,166,751</u>	<u>\$ 64,582,972</u>	<u>\$ (416,221)</u>
			Dollar Change
	2016	2015	
Land and Land Rights	\$ 837,874	\$ 615,374	\$ 222,500
Electric Plant in Service	16,200,734	16,273,685	(72,951)
Water Plant in Service	18,096,558	17,358,819	737,739
Gas Plant in Service	7,727,106	7,531,251	195,855
General Plant in Service	21,720,700	4,971,609	16,749,091
Construction in Progress	-	11,309,016	(11,309,016)
	<u>\$ 64,582,972</u>	<u>\$ 58,059,754</u>	<u>\$ 6,523,218</u>

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

**Long-Term Debt:**

- Long-term debt decreased in the amount of \$1,058,055 in 2017. The current portion of the General Obligation Water Bonds, Series 2012A due in 2018 is \$360,000 and the current portion of the General Obligation Capital Improvement Plan Bonds, Series 2015A due in 2018 is \$675,000. See Note 6 to the financial statements for more details related to changes in debt.
- Long-term debt decreased in the amount of \$1,043,054 in 2016. The current portion of the General Obligation Water Bonds, Series 2012A due in 2017 is \$355,000 and the current portion of the General Obligation Capital Improvement Plan Bonds, Series 2015A due in 2017 is \$665,000. See Note 6 to the financial statements for more details related to changes in debt.

**AUSTIN UTILITIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**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 implemented new rates in the electric and water departments in January 2018. A cost-of-service and unbundled rate study was completed for the three utilities in 2016. On November 14, 2017 the Austin Utilities Board of Commissioners approved the 2018 budget.

**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, 1908 14<sup>th</sup> Street NE, Austin, Minnesota 55912.

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## **BASIC FINANCIAL STATEMENTS**

**AUSTIN UTILITIES  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>ASSETS</b>		
<b>Utility Plant</b>		
Plant in Service	\$ 116,941,763	\$ 115,319,053
Less: Accumulated Depreciation	(52,775,012)	(50,736,081)
Net Utility Plant	64,166,751	64,582,972
<b>Other Property and Investments</b>		
Special Funds	8,396,209	6,368,484
Other Investments	9,208,114	7,228,523
Total Other Property and Investments	17,604,323	13,597,007
<b>Current Assets</b>		
Cash and Cash Equivalents	11,364,216	14,058,752
Accounts Receivable (Less Allowance for Uncollectible Accounts of \$200,000)	3,443,381	3,357,344
Partnering in Energy Loan Receivable (Less Allowance for Uncollectible Accounts of \$0)	10,390	1,710
Other Accounts Receivable (Less Allowance for Uncollectible Accounts of \$2,000)	142,437	166,897
Inventories	1,338,110	1,394,739
Prepaid Expenses	141,098	186,918
Total Current Assets	16,439,632	19,166,360
<b>Other Assets</b>	710,047	879,458
Total Assets	98,920,753	98,225,797
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Related	1,457,305	3,307,542
Total Assets and Deferred Outflows of Resources	\$ 100,378,058	\$ 101,533,339

See accompanying Notes to Basic Financial Statements.

<b>NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES</b>	<u>2017</u>	<u>2016</u>
<b>NET POSITION</b>		
Net Investment in Utility and Non-Utility Plant	\$ 42,931,053	\$ 42,304,219
Unrestricted	<u>17,178,630</u>	<u>17,252,436</u>
Net Position	60,109,683	59,556,655
<b>LIABILITIES</b>		
<b>Long-Term Liabilities</b>		
Accrued Sick Leave	1,764,819	1,835,191
Bonds Payable	20,200,698	21,258,753
Net Pension Liability	5,981,746	7,973,353
Other Postemployment Benefits Payable	<u>2,641,252</u>	<u>2,415,297</u>
Total Long-Term Liabilities	30,588,515	33,482,594
<b>Current Liabilities</b>		
Accounts Payable	5,437,191	4,604,519
Accrued Expenses	1,255,724	1,267,196
Current Portion of Bonds Payable	1,035,000	1,020,000
Other Current Liabilities	<u>539,745</u>	<u>578,690</u>
Total Current Liabilities	8,267,660	7,470,405
Total Liabilities	38,856,175	40,952,999
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Community Solar Program Related	44,764	-
Pension Related	<u>1,367,436</u>	<u>1,023,685</u>
Total Deferred Inflows of Resources	<u>1,412,200</u>	<u>1,023,685</u>
Total Net Position, Liabilities and Deferred Inflows of Resources	<u>\$ 100,378,058</u>	<u>\$ 101,533,339</u>

**AUSTIN UTILITIES**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Sales	\$ 57,043,110	\$ 55,878,174
Forfeited Discounts	228,057	212,165
Other Operating Revenues	734,155	446,910
Total Operating Revenues	<u>58,005,322</u>	<u>56,537,249</u>
<b>OPERATING EXPENSES</b>		
Purchases	37,713,378	36,062,319
Production	1,242,500	1,498,775
Distribution	5,445,422	5,248,254
Other Operating Expenses	11,944,956	12,012,493
Total Operating Expenses	<u>56,346,256</u>	<u>54,821,841</u>
<b>OPERATING INCOME</b>	1,659,066	1,715,408
<b>OTHER REVENUES (EXPENSES)</b>		
Merchandising Contract Work	1,000	-
Capital Grant	-	16,900
Investment Income (Loss)	314,504	259,627
Interest Expense	(560,290)	(243,781)
Gain (Loss) on Disposal of Property	(935,474)	53,459
Total Other Revenues (Expenses)	<u>(1,180,260)</u>	<u>86,205</u>
<b>NET INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	478,806	1,801,613
Capital Contributions	74,222	268,940
Transfer Out	-	(525,348)
<b>CHANGE IN NET POSITION</b>	553,028	1,545,205
Net Position - Beginning of Year	<u>59,556,655</u>	<u>58,011,450</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 60,109,683</u>	<u>\$ 59,556,655</u>

See accompanying Notes to Basic Financial Statements.

**AUSTIN UTILITIES**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received From Customers	\$ 57,186,674	\$ 55,555,811
Cash Received From Others	789,992	468,730
Cash Paid to Suppliers	(44,199,736)	(44,265,522)
Cash Paid to Employees	(6,090,803)	(5,586,193)
Payments in Lieu of Property Taxes	(1,656,321)	(1,648,959)
Net Cash Provided by Operating Activities	6,029,806	4,523,867
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Interest Paid on Customer Deposits	(2,510)	(501)
Proceeds from Merchandising/Contract Work	1,000	-
Net Cash Used by Non-Capital Financing Activities	(1,510)	(501)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Construction and Acquisition of Plant	(3,474,415)	(10,204,675)
Proceeds from Sale of Assets	61,447	346,073
Proceeds from Contributions in Aid of Construction	74,222	226,440
Capital Grant Proceeds	-	16,900
Interest Paid	(641,618)	(748,279)
Principal Payments on Bonds	(1,020,000)	(350,000)
Net Cash Used by Capital and Related Financing Activities	(5,000,364)	(10,713,541)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Other Investments and Special Funds	(10,025,927)	(26,530,580)
Sales of Other Investments and Special Funds	6,025,203	35,257,122
Interest Income	278,256	343,241
Net Cash Provided (Used) by Investing Activities	(3,722,468)	9,069,783
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(2,694,536)	2,879,608
Cash and Cash Equivalents - Beginning of Year	14,058,752	11,179,144
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 11,364,216	\$ 14,058,752

See accompanying Notes to Basic Financial Statements.

**AUSTIN UTILITIES**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 1,659,066	\$ 1,715,408
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	2,950,069	2,810,234
Decrease (Increase) in Other Assets	169,411	178,032
Decrease (Increase) in Deferred Outflows of Resources - Pension	1,850,237	(2,597,906)
Increase (Decrease) in Accrued Sick Leave	(70,372)	(57,813)
Increase (Decrease) in Other Postemployment Benefits Payable	225,955	258,358
Increase (Decrease) in Net Pension Liability	(1,991,607)	2,847,842
Increase (Decrease) in Deferred Inflows of Resources - Pension	343,751	240,326
Increase (Decrease) in Deferred Inflows of Resources - Community Solar Program	44,764	-
(Increase) Decrease in:		
Customer Accounts Receivable	(86,037)	(499,745)
Partnering in Energy Solutions Receivable	(8,680)	3,727
Other Accounts Receivable	54,116	11,478
Materials and Supplies Inventory	56,629	130,524
Prepaid Expenses	45,820	49,729
Increase (Decrease) in:		
Accounts Payable	832,672	(551,918)
Accrued Expenses	(7,043)	27,619
Other Liabilities	(38,945)	(42,028)
Net Cash Provided by Operating Activities	\$ 6,029,806	\$ 4,523,867
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Noncash Transactions -		
Change in Fair Value of Investments	\$ 6,592	\$ (34,789)

See accompanying Notes to Basic Financial Statements.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Austin Utilities (the Utilities) have been prepared in conformity with accounting principles generally accepted in the United States of America (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 accounting principles generally accepted in the United States of America for state and local governments.

**B. 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 GASB 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.

**C. 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.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Utility Plant and Depreciation**

Capital assets are recorded on a cost basis, including cost of labor and materials used by the Utilities. 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. Interest incurred during the construction phase of the utility plant is included as part of the capitalized value of the utility plant constructed. The Utilities capitalized interest in for the years December 31, 2017 and 2016, in the amounts of \$56,354 and \$388,310, respectively. 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 the following extended estimated lives:

Transportation Equipment	10 Years
Power Operated Equipment	10 – 20 Years

**E. Cash and Cash Equivalents**

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

**F. Investments**

In accordance with GASB Statement No. 31, the Utilities records its investments with a maturity greater than one year at the time of purchase at fair value.

**G. Inventory**

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

**H. Deferred Outflows of Resources**

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow (expense) until that time. The Utilities has one type of item that qualifies as this reporting element, pension related.

**I. Sick Leave and Post-Retirement Benefits**

Sick leave is accrued as earned by the employees and is funded by investments designated by the Utilities to fund this benefit.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Sick Leave and Post-Retirement Benefits (Continued)**

In addition to providing pension benefits, the Utilities offers health insurance benefits for all retired employees. The maximum employer's obligation is \$1,150 monthly, with the retiree paying any amount beyond the \$1,150 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.

**J. Pension**

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

**K. Deferred Inflows of Resources**

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Utilities has two types of items that qualify as this reporting element, community solar program, and pension related.

**L. Revenue Recognition**

Meter readings are taken throughout the month for residential and small commercial accounts, with billing statements being made on the 10<sup>th</sup>, 20<sup>th</sup>, and 30<sup>th</sup> 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.

**M. 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. Taxes expensed totaled \$1,660,331 and \$1,647,051 in 2017 and 2016, respectively.

**N. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the basic financial statements. Net investment in capital assets 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 position is reported as restricted in the basic financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 2 DETAIL OF UTILITY PLANT**

Utility plant activity was as follows for the fiscal years ending December 31, 2017 and 2016:

2017	Beginning Balance	Additions	Retirements	Ending Balance
Land and Land Rights	\$ 837,874	\$ -	\$ -	\$ 837,874
Construction Work				
Utility Plant in Service	114,481,179	3,606,201	(1,983,491)	116,103,889
Less Accumulated Depreciation for Utility Plant in Service	(50,736,081)	(2,950,069)	911,138	(52,775,012)
Capital Assets, Net	<u>\$ 64,582,972</u>	<u>\$ 656,132</u>	<u>\$ (1,072,353)</u>	<u>\$ 64,166,751</u>
2016	Beginning Balance	Additions	Retirements	Ending Balance
Land and Land Rights	\$ 615,374	\$ 222,500	\$ -	\$ 837,874
Construction Work				
in Progress	11,309,016	3,814,649	(15,123,665)	-
Utility Plant in Service	97,389,189	21,396,222	(4,304,232)	114,481,179
Less Accumulated Depreciation for Utility Plant in Service	(51,253,825)	(2,810,234)	3,327,978	(50,736,081)
Capital Assets, Net	<u>\$ 58,059,754</u>	<u>\$ 22,623,137</u>	<u>\$ (16,099,919)</u>	<u>\$ 64,582,972</u>

Assets included in land and land rights and construction work in progress are not being depreciated.

**NOTE 3 SPECIAL FUNDS**

These funds represent certificates of deposit, demand deposit accounts, and government agency securities that fund various liabilities and reserves of the Utilities. Special funds consisted of the following at December 31, 2017 and 2016:

	2017	2016
Employee Sick Pay Benefits Fund	\$ 1,841,869	\$ 1,801,293
General Liability Insurance Fund	1,112,361	1,103,658
Flexible Spending Account	16,544	17,533
Investments Capital Improvement Fund	3,465,485	1,488,135
Other Postemployment Benefits Fund	1,959,950	1,957,865
Total	<u>\$ 8,396,209</u>	<u>\$ 6,368,484</u>

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 4 DEPOSITS AND INVESTMENTS**

**A. 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. 118A.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, 2017 and 2016 were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

**B. 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.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

The Utilities had the following investments at December 31, 2017 and 2016:

**Investments Held at Fair Value**

	2017	2016
Federal Home Loan Mortgage Corporate Discount Notes	\$ 9,123,883	\$ 6,151,753
Federal National Mortgage Association Notes	4,451,939	4,427,186
Federal Home Loan Bank Notes	2,961,400	1,987,830
Federal Farm Credit Bureau Notes	999,970	963,830
Repurchase Agreement	6,106,259	9,653,365
UBS Select Treasury Institutional Fund	50,587	48,874
Total	<u>\$ 23,694,038</u>	<u>\$ 23,232,838</u>

**Repurchase Agreement**

The Utilities entered into a repurchase sweep agreement with U.S. Bank. The sweep account invests in commercial paper issued by U.S. Bank NA with ratings of P-1, A-1+, and F1+ by Moody's Investor Services, Standard & Poor's and Fitch, respectively. The securities will be owned and held in safekeeping by U.S. Bank.

**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.

Maturities for investments held by the Utilities at December 31, 2017 is as follows:

	Total	Investment Maturities in Years			
		Less Than 1	1-5 Years	6-10 Years	More than 10
Federal Home Loan Bank Notes	\$ 2,961,400	\$ -	\$ 1,975,090	\$ 986,310	\$ -
Federal National Mortgage Association Notes	4,451,939	-	973,580	3,478,359	-
Federal Home Loan Mortgage Corporate Discount Notes	9,123,883	-	6,682,738	1,449,165	991,980
Federal Farm Credit Bank Notes	999,970	-	-	-	999,970
Total	<u>\$ 17,537,192</u>	<u>\$ -</u>	<u>\$ 9,631,408</u>	<u>\$ 5,913,834</u>	<u>\$ 1,991,950</u>

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

**Credit Risk**

As of December 31, 2017, the Utilities' investments in Federal Farm Credit Bank Notes were rated Aaa and AA+ by Moody's Investor Services and Standard & Poor's, respectively, Federal National Mortgage Association obligations were rated Aaa and AA+ by Moody's Investor Services and Standard & Poor's, respectively; Federal Home Loan Bank obligations were rated Aaa and AA+ by Moody's Investor Services and Standard & Poor's, respectively; and the investments in Federal Home Loan Mortgage Corporate Discount Notes were rated Aaa and AA+ by Moody's Investor Services and Standard & Poor's, respectively. As of December 31, 2017 the Utility's investment in the UBS Select Treasury Institutional Fund is rated AAAM by Standard & Poor's and Aaa-mf 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% of the Utilities' total investments:

	<u>2017</u>	<u>2016</u>
Federal Home Loan Bank Notes	\$ 2,961,400	\$ 1,987,830
Federal National Mortgage Association Notes	4,451,939	4,427,186
Federal Home Loan Mortgage Corporate Discount Notes	9,123,883	6,151,753
Repurchase Agreement - U.S. Bank	6,106,259	9,653,365
Total	<u>\$ 22,643,481</u>	<u>\$ 22,220,134</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, 2017, the Utilities did not have any such arrangements.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

**C. Balance Sheet Presentation**

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

	2017	2016
Deposits	\$ 5,274,501	\$ 4,422,921
Repurchase Agreement - U.S. Bank	6,106,259	9,653,365
Government Agencies	17,537,192	13,530,599
UBS Select Treasury Institutional Fund	50,587	48,874
Total	<u>\$ 28,968,539</u>	<u>\$ 27,655,759</u>
Statement of Net Position:		
Cash and Cash Equivalents	\$ 11,364,216	\$ 14,058,752
Special Funds	8,396,209	6,368,484
Other Investments	9,208,114	7,228,523
Total	<u>\$ 28,968,539</u>	<u>\$ 27,655,759</u>

**D. Fair Value Measurements**

The Utilities uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Utilities follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

In accordance with this standard, the Utilities has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

*Level 2* – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

*Level 3* – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

**D. Fair Value Measurement (Continued)**

Assets of the Utilities measured at fair value on a recurring basis:

As of December 31, 2017	Level 1	Level 2	Level 3	Total
Federal Home Loan Mortgage				
Corporate Discount Notes	\$ -	\$ 9,123,883	\$ -	\$ 9,123,883
Federal National Mortgage				
Association Notes	-	4,451,939	-	4,451,939
Federal Home Loan Bank Notes	-	2,961,400	-	2,961,400
Federal Farm Credit Bureau Notes	-	999,970	-	999,970
Repurchase Agreement	-	6,106,259	-	6,106,259
Total	<u>\$ -</u>	<u>\$ 23,643,451</u>	<u>\$ -</u>	

Investments Measured at Net Asset Value (NAV)				50,587
				<u>\$ 23,694,038</u>

As of December 31, 2016	Level 1	Level 2	Level 3	Total
Federal Home Loan Mortgage				
Corporate Discount Notes	\$ -	\$ 6,151,753	\$ -	\$ 6,151,753
Federal National Mortgage				
Association Notes	-	4,427,186	-	4,427,186
Federal Home Loan Bank Notes	-	1,987,830	-	1,987,830
Federal Farm Credit Bureau Notes	-	963,830	-	963,830
Repurchase Agreement	-	9,653,365	-	9,653,365
Total	<u>\$ -</u>	<u>\$ 23,183,964</u>	<u>\$ -</u>	

Investments Measured at Net Asset Value (NAV)				48,874
				<u>\$ 23,232,838</u>

The UBS Select Treasury Institutional Fund is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of not greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00.

The UBS Select Treasury Institutional Fund has no redemption requirements.

**NOTE 5 OTHER ASSETS**

Other assets consist of the following at December 31:

	2017	2016
Water Tower Maintenance	\$ 624,437	\$ 792,127
Unavailable Special Assessments	85,610	87,331
Total	<u>\$ 710,047</u>	<u>\$ 879,458</u>

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 5 OTHER ASSETS (CONTINUED)**

The Water Tower Maintenance charges are being amortized over a 10 year period. Unavailable special assessments represent water improvements made to undeveloped land and the noncurrent portion of assessments made. These amounts will be written off as they are assessed to property owners and become collectible within one year.

**NOTE 6 LONG-TERM DEBT**

**A. Components of Long-Term Debt**

	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding	Due Within One Year
G.O. Water Revenue Bonds, Series 2012A	2.0% - 2.5%	07/12/12	12/01/27	\$ 5,600,000	\$ 3,895,000	\$ 360,000
G.O. Capital Improvement Plan Bonds, Series 2015A	2.0% - 3.625%	06/01/15	02/01/36	\$ 17,635,000	16,970,000	675,000
Total General Obligation Bonds					20,865,000	1,035,000
Bond Premium Total					370,698	-
					<u>\$ 21,235,698</u>	<u>\$ 1,035,000</u>

**B. Minimum Future Debt Payments**

Minimum annual principal and interest payments required to retire general obligation bonds are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,035,000	\$ 621,119
2019	1,055,000	596,819
2020	1,080,000	568,519
2021	1,110,000	543,119
2022	1,130,000	520,819
2023-2027	6,130,000	2,092,788
2028-2032	4,840,000	1,191,659
2033-2036	4,485,000	325,184
Total	<u>\$ 20,865,000</u>	<u>\$ 6,460,026</u>

**C. Description of Long-Term Debt**

On July 12, 2012 the Utilities issued \$5,600,000 of G.O. Water Revenue Bonds, Series 2012A. The interest rates range from 2.0 – 2.5%. The proceeds of the issue were used to finance improvements to the water system consisting of storage, pumping and main extension projects.

On June 1, 2015, the Utilities issued \$17,635,000 of G.O. Capital Improvement Plan Bonds, Series 2015A. The interest rates range from 2.0 – 3.625%. The proceeds of the issue were used to construct a central facility.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

**D. Changes in Long-Term Debt**

The following is a summary of the changes in long-term debt for the fiscal years ended December 31, 2017 and 2016

2017	Beginning Balance	Additions	Payments	Ending Balance
G.O. Water Revenue				
Bonds, Series 2012A	\$ 4,250,000	\$ -	\$ (355,000)	\$ 3,895,000
Bond Premium	59,814	-	(5,480)	54,334
G.O. Capital Improvement Plan				
Bonds, Series 2015A	17,635,000	-	(665,000)	16,970,000
Bond Premium	333,939	-	(17,575)	316,364
Total	<u>\$ 22,278,753</u>	<u>\$ -</u>	<u>\$ (1,043,055)</u>	<u>\$ 21,235,698</u>
2016	Beginning Balance	Additions	Payments	Ending Balance
G.O. Water Revenue				
Bonds, Series 2012A	\$ 4,600,000	\$ -	\$ (350,000)	\$ 4,250,000
Bond Premium	65,293	-	(5,479)	59,814
G.O. Capital Improvement Plan				
Bonds, Series 2015A	17,635,000	-	-	17,635,000
Bond Premium	351,514	-	(17,575)	333,939
Total	<u>\$ 22,651,807</u>	<u>\$ -</u>	<u>\$ (373,054)</u>	<u>\$ 22,278,753</u>

**NOTE 7 ACCRUED SICK LEAVE**

Accrued sick leave consisted of \$1,764,819 and \$1,835,191 of December 31, 2017 and 2016, 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, 2017 and 2016, the Utilities had specifically designated investments totaling \$1,841,869 and \$1,801,293, respectively, or 104% and 98% in 2017 and 2016 the accumulated benefits.

**NOTE 8 DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The Utilities participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the Internal Revenue Code.

**AUSTIN UTILITIES  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**A. Plan Description (Continued)**

All full-time and certain part-time employees of the Utilities are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**B. Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

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. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**C. Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017 and 2016. The Utilities was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The Utilities' contributions to the GERF for the year ended December 31, 2017 and 2016 were \$456,619 and \$456,720, respectively. The Utilities' contributions were equal to the required contributions as set by state statute.

**AUSTIN UTILITIES  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**D. Pension Costs**

At December 31, 2017 and 2016, the Utilities reported liabilities of \$5,981,746 and \$7,973,353, respectively, for its proportionate share of the GERF's net pension liability. The Utilities' net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Utilities totaled \$75,183. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the 2017 net pension liability was based on the Utilities' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Utilities' proportion was 0.0937, which is a decrease of 0.0045 from its proportionate share at June 30, 2016 of 0.0982%.

For the years ended December 31, 2017 and 2016, the Utilities recognized pension expense of \$651,240 and \$956,400, respectively, for its proportionate share of the GERF's pension expense. In addition, the Utilities recognized an additional \$2,171 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$6 million to the General Employees Fund.

The Utilities reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

As of December 31, 2017		
Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 197,140	\$ 384,821
Changes in Actuarial Assumptions	993,098	599,671
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	38,634	-
Changes in Proportion and Differences Between District		
Contributions and Proportionate Share of Contributions	-	382,944
District Contributions Subsequent to the		
Measurement Date	228,433	-
Total	\$ 1,457,305	\$ 1,367,436

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**D. Pension Costs (Continued)**

As of December 31, 2016		
Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ -	\$ 647,717
Changes in Actuarial Assumptions	1,561,190	-
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	1,513,377	-
Changes in Proportion and Differences Between District		
Contributions and Proportionate Share of Contributions	-	375,968
District Contributions Subsequent to the		
Measurement Date	232,975	-
Total	\$ 3,307,542	\$ 1,023,685

\$228,433 reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expenses Amount
2018	\$ 17,790
2019	274,381
2020	(176,819)
2021	(253,916)

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per Year
Active Member Payroll Growth	3.25% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year through 2044 and then 2.5% thereafter.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**E. Actuarial Assumptions (Continued)**

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return using a building-block method in which best estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39 %	5.10 %
International Stocks	19	5.30
Bonds	20	75.00
Alternative Assets	20	5.90
Cash	2	-
Total	<u>100 %</u>	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 201 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**G. Pension Liability Sensitivity**

The following presents the Utilities' proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or 1 percentage point higher than the current discount rate:

As of December 31, 2017			
Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
GERF Discount Rate	6.50 %	7.50 %	8.50 %
Utilities' Proportionate Share of the GERF Net Pension Liability	\$ 9,278,133	\$ 5,981,746	\$ 3,283,055

  

As of December 31, 2016			
Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
GERF Discount Rate	6.90 %	7.90 %	8.90 %
Utilities' Proportionate Share of the GERF Net Pension Liability	\$ 11,324,524	\$ 7,973,353	\$ 5,212,900

**H. Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN**

**A. 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' health insurance plan. There are 79 active participants and 85 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.

**AUSTIN UTILITIES  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)**

**B. Funding Policy**

Contribution requirements are also negotiated between the Utilities and the union representatives. The Utilities contributes up to 100% of the cost of current year premiums for eligible retired plan members and their spouses. The Utilities contributed \$914,365 and \$886,727 to the plan for fiscal years 2017 and 2016, respectively.

**C. 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 unfunded actuarial liabilities over a period not to exceed 30 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.

	2017	2016
Annual Required Contribution	\$ 1,184,868	\$ 1,184,868
Interest on Net OPEB Calculation	84,535	75,493
Adjustment to Annual Required Contribution	(129,083)	(115,276)
Annual OPEB Cost (Expense)	<u>1,140,320</u>	<u>1,145,085</u>
Contributions Made	<u>(914,365)</u>	<u>(886,727)</u>
Increase in Net OPEB Obligation	225,955	258,358
Net OPEB Obligation - Beginning of Year	2,415,297	2,156,939
Net OPEB Obligation - End of Year	<u><u>\$ 2,641,252</u></u>	<u><u>\$ 2,415,297</u></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 2017 and the two preceding years are:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$ 1,140,320	80.2 %	\$ 2,641,252
12/31/2016	1,145,085	77.4	2,415,297
12/31/2015	1,043,292	84.9	2,156,939

**D. Funded Status and Funding Progress**

As of January 1, 2016, the most recent actuarial valuation date, the Utilities unfunded actuarial accrued liability (UAAL) was \$16,346,028. The annual payroll for active employees covered by the plan in the actuarial valuation was \$5,676,493 for a ratio of UAAL to covered payroll of 288.0%.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)**

**D. Funded Status and Funding Progress (Continued)**

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.

**E. 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.

In the January 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5% 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 inflation rate was 2.50%. The initial healthcare trend rate was 6.75% 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, 2017 does not exceed 30 years.

**NOTE 10 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 \$57,005,484.

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 rated 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, 2017.

**AUSTIN UTILITIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 10 RISK MANAGEMENT (CONTINUED)**

The Utilities joined together with other governmental entities in the National Joint Powers Alliance, a public entity risk pool currently operating as common risk management and insurance program for member entities. The Utilities pays an annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating entities for future losses sustained is extremely remote.

Insurance coverage decreased significantly from the previous year for the Utilities' property insurance due to decommissioning the Northeast Plant. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES**

**Power Sales Contract**

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

**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 4,408,820 thousand cubic feet of natural gas through October 2026 for a total commitment of \$16,273,685 at December 31, 2017.

**Economic Dependency**

During the years ended December 31, 2017 and 2016 net sales to Hormel Foods Corporation amounted to \$18,200,759 and \$16,769,343, respectively. Sales to this customer accounted for 10% or more of the total revenue of the Utilities.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**AUSTIN UTILITIES  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2016	\$ -	\$ 16,346,028	\$ 16,346,028	- %	\$ 5,676,493	288.0 %
1/1/2013	-	14,087,950	14,087,950	- %	5,567,070	253.1 %
1/1/2010	-	14,043,099	14,043,099	- %	5,902,318	237.9 %

**AUSTIN UTILITIES**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF UTILITIES' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Fiscal Year	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement Date	6/30/17	6/30/16	6/30/15
Utilities' Proportion of the Net Pension Liability	0.0937 %	0.0989 %	0.0989 %
Utilities' Proportionate Share of the Net Pension Liability	\$ 5,981,746	\$ 7,973,353	\$ 5,125,511
State's Proportionate Share of the Net Pension Liability Associated with the Utilities	<u>75,183</u>	<u>104,049</u>	<u>-</u>
Total	\$ 6,056,929	\$ 8,077,402	\$ 5,125,511
Utilities' Covered Payroll	\$ 5,934,560	\$ 6,099,106	\$ 6,056,621
Utilities' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	100.80 %	130.73 %	84.63 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90 %	68.91 %	78.20 %

Note: Information is required to be presented for 10 years. However until a full 10-year trend is compiled, the Utilities will present information for only those years for which information is available.

**AUSTIN UTILITIES**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF UTILITIES' CONTRIBUTIONS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 456,619	\$ 456,720	\$ 442,817
Contributions in Relation to the Contractually Required Contribution	<u>(456,619)</u>	<u>(456,720)</u>	<u>(442,817)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utilities' Covered Payroll	\$ 6,089,520	\$ 6,090,354	\$ 5,915,410
Contributions as a Percentage of Covered Payroll	7.50 %	7.50 %	7.49 %

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is complied, the Utilities will present information for only those years for which information is available.

## **SUPPLEMENTARY INFORMATION**

**AUSTIN UTILITIES**  
**SUPPLEMENTARY COMBINING SCHEDULES OF REVENUES AND EXPENSES**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Electric	
	2017	2016
<b>OPERATING REVENUES</b>		
Sales		
Commercial and Residential	\$ 35,151,081	\$ 35,323,069
Public Street and Highway Lighting	195,027	191,830
Interdepartmental	509,071	526,323
Other Sales	39,983	38,972
Total Sales Revenue	35,895,162	36,080,194
Forfeited Discounts	131,905	127,017
Other Operating Revenues	697,131	417,756
Total Operating Revenues	36,724,198	36,624,967
<b>OPERATING EXPENSES</b>		
Purchases	26,660,802	26,428,998
Production	182,306	492,762
Distribution	2,362,386	2,241,083
Other Operating Expenses	6,627,396	6,493,927
Total Operating Expenses	35,832,890	35,656,770
<b>OPERATING INCOME</b>	891,308	968,197
<b>OTHER REVENUES (EXPENSES)</b>		
Merchandising/Contract Work	1,000	-
Capital Grant	-	8,450
Investment Income	144,413	119,402
Interest Expense	(222,829)	(97,025)
Gain (Loss) on Disposal of Property	(433,200)	24,591
Total Other Revenues (Expenses)	(510,616)	55,418
<b>NET INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	380,692	1,023,615
Capital Contributions	25,746	197,372
Transfer Out	-	(241,660)
<b>CHANGE IN NET POSITION</b>	\$ 406,438	\$ 979,327

Water		Gas		Total	
2017	2016	2017	2016	2017	2016
\$ 4,651,539	\$ 4,372,261	\$ 16,356,413	\$ 15,202,488	\$ 56,159,033	\$ 54,897,818
-	-	-	-	195,027	191,830
3,673	9,517	53,307	131,922	566,051	667,762
83,016	81,792	-	-	122,999	120,764
4,738,228	4,463,570	16,409,720	15,334,410	57,043,110	55,878,174
28,055	25,465	68,097	59,683	228,057	212,165
35,009	24,756	2,015	4,398	734,155	446,910
4,801,292	4,513,791	16,479,832	15,398,491	58,005,322	56,537,249
-	-	11,052,576	9,633,321	37,713,378	36,062,319
1,060,194	1,006,013	-	-	1,242,500	1,498,775
1,282,896	1,101,994	1,800,140	1,905,177	5,445,422	5,248,254
1,845,618	1,874,656	3,471,942	3,643,910	11,944,956	12,012,493
4,188,708	3,982,663	16,324,658	15,182,408	56,346,256	54,821,841
612,584	531,128	155,174	216,083	1,659,066	1,715,408
-	-	-	-	1,000	-
-	-	-	8,450	-	16,900
53,933	44,185	116,158	96,040	314,504	259,627
(157,817)	(68,669)	(179,644)	(78,087)	(560,290)	(243,781)
(156,963)	9,088	(345,311)	19,780	(935,474)	53,459
(260,847)	(15,396)	(408,797)	46,183	(1,180,260)	86,205
351,737	515,732	(253,623)	262,266	478,806	1,801,613
32,726	37,368	15,750	34,200	74,222	268,940
-	(89,309)	-	(194,379)	-	(525,348)
\$ 384,463	\$ 463,791	\$ (237,873)	\$ 102,087	\$ 553,028	\$ 1,545,205

**AUSTIN UTILITIES**  
**SUPPLEMENTARY SCHEDULES OF OPERATING EXPENSES**  
**ELECTRIC UTILITY**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>PURCHASES</b>		
Purchased Power	\$ 26,492,795	\$ 26,294,814
System Control and Load Dispatching	168,007	134,184
Total Purchases	<u>26,660,802</u>	<u>26,428,998</u>
<b>PRODUCTION</b>		
Operation, Supervision, and Engineering	-	34,633
Steam Expenses	-	6,171
Electric Expenses	-	3,839
Maintenance	91,381	230,592
Miscellaneous	90,925	217,527
Total Production	<u>182,306</u>	<u>492,762</u>
<b>DISTRIBUTION</b>		
Operation, Supervision, and Engineering	215,617	207,719
Station Expenses	93,566	86,452
Overhead Lines	50,379	44,444
Underground Lines	21,323	24,418
Street Lighting and Signal System	9,569	6,220
Meters	131,544	123,582
Customer Installations	21,963	12,627
Maintenance	1,307,542	1,151,930
Miscellaneous	510,883	583,691
Total Distribution	<u>2,362,386</u>	<u>2,241,083</u>
<b>OTHER OPERATING EXPENSES</b>		
Customer Accounts	1,148,100	898,212
Administrative and General	2,632,202	2,843,891
Depreciation	1,554,504	1,448,504
Taxes Other than Income Taxes	1,292,590	1,303,320
Total Other Operating Expenses	<u>6,627,396</u>	<u>6,493,927</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 35,832,890</u></u>	<u><u>\$ 35,656,770</u></u>

**AUSTIN UTILITIES**  
**SUPPLEMENTARY SCHEDULES OF OPERATING EXPENSES**  
**WATER UTILITY**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>PRODUCTION</b>		
Operation, Supervision, and Engineering	\$ 11,848	\$ 10,427
Operating Labor and Expenses	261,377	281,665
Power Purchased for Pumping	408,306	370,937
Chemicals	237,897	211,595
Maintenance	105,592	98,971
Miscellaneous	35,174	32,418
Total Production	<u>1,060,194</u>	<u>1,006,013</u>
<b>DISTRIBUTION</b>		
Operation, Supervision, and Engineering	138,532	142,706
Storage Facilities	6,432	1,447
Distribution Lines	37,937	27,928
Meters	117,716	89,252
Customer Installations	1,690	4,991
Maintenance	812,748	651,465
Miscellaneous	167,841	184,205
Total Distribution	<u>1,282,896</u>	<u>1,101,994</u>
<b>OTHER OPERATING EXPENSES</b>		
Customer Accounts	157,256	139,980
Administrative and General	1,010,327	1,091,131
Depreciation	594,839	560,441
Taxes Other than Income Taxes	83,196	83,104
Total Other Operating Expenses	<u>1,845,618</u>	<u>1,874,656</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 4,188,708</u></u>	<u><u>\$ 3,982,663</u></u>

**AUSTIN UTILITIES**  
**SUPPLEMENTARY SCHEDULES OF OPERATING EXPENSES**  
**GAS UTILITY**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>PURCHASES</b>		
Natural Gas	\$ 11,042,770	\$ 9,623,119
Other Gas	9,806	10,202
Total Purchases	<u>11,052,576</u>	<u>9,633,321</u>
<b>DISTRIBUTION</b>		
Operation, Supervision, and Engineering	271,444	266,525
Cathodic Protection Expenses	3,121	4,531
Local Storage	7,469	30,672
Mains and Service	172,009	186,538
Measuring and Regulation Station Expenses	170,680	168,001
Meter and House Regulator Expense	59,634	78,469
Customer Installations	351,803	365,172
Maintenance	424,266	469,952
Miscellaneous	339,714	335,317
Total Distribution	<u>1,800,140</u>	<u>1,905,177</u>
<b>OTHER OPERATING EXPENSES</b>		
Customer Accounts	547,326	574,777
Administrative and General	2,055,513	2,221,496
Depreciation	584,558	587,010
Taxes Other than Income Taxes	284,545	260,627
Total Other Operating Expenses	<u>3,471,942</u>	<u>3,643,910</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 16,324,658</u>	<u>\$ 15,182,408</u>