



Community Connections

2014 Annual Report





FUTURE SITE OF AUSTIN UTILITIES *Energy Park*

COMING
FALL 2015

www.austinutilities.com



Vision
Building
Communication
Leadership

Community Minded

I have had the privilege of calling Austin home for 4 plus years now, however, I feel like I have been a part of the community for much longer. I believe an important part of my job is to engage in the community through volunteering. This volunteering value provides opportunities to make friends and connect with the community. Volunteering has always been an important part of my life, and I was happy to discover that the Austin Utilities Board of Commissioners supported that leadership quality when I was hired for the general manager position.

I believe the people who live in a community have a responsibility to give back to the community they live in, to make it a better place for all. Since arriving at Austin Utilities we have stressed the importance of giving back to our community. We are making community stewardship a theme within our culture.

This year you will find our annual report is all about volunteering and community spirit. As a public utility, supporting the community is an important piece of our business plan. We are a local company hiring local people who care about the community they live in. We support their efforts to volunteer in the community and as an organization we look for ways to do the same. Our participation in United Way of Mower County and Salvation Army programs are small examples of how the staff at Austin Utilities works together to support our community.

As we plan and prepare for the future, the well-being of the community is always on our mind. That is one of the reasons I am so excited about the construction of a new facility at Energy Park. It is a great representation of the commitment we have to support and grow the Austin community. This centralized facility will house both our administration and operation functions allowing us to be more productive and more cost-effective which is good for our customers and the community.

Please take care and have a great 2015.

Mark Nibaur
General Manager

Austin Utilities holds monthly board meetings that are open to the public on the second Tuesday of each month at 4pm at the Municipal Building. During these meetings, utility decisions are made by our citizen elected board.

Board of Commissioners

Board of Commissioners from left to right – Tom Sherman, Jeanne Sheehan, Jim Schroeder, Geoff Baker, Tom Baudler.



Our community minded spirit is not just a phrase or marketing scheme. Our volunteerism starts at the top of our organization with our Board of Commissioners. Our Commissioners are elected by the citizens of Austin and they serve, as volunteers, to represent the communities best interest. As citizens of Austin they understand the effort they commit to this organization benefits the entire community. Using our mission statement as a guideline, they approve policy that will steer us in the right direction.

Commitment Integrity Common Ground Support



Our leadership team members have all participated in various volunteer activities throughout Austin. Their care and concern for the community guides them as they plan and prepare our future growth and progress. Some of them were even born and raised in Austin.



Leadership Team

Leadership Team from left to right, top to bottom – Tom Tylutki – Electric Distribution Director, Alex Bumgardner – Power Production Director, Todd Jorgenson – Gas/Water/Engineering Operations Director, Kim Duncomb – Support Services Director



Municipal Utilities – Community-Owned

Power to the People.

Austin Utilities is your local municipal utility. Municipal utilities are local institutions working to meet local needs. All the benefits produced by Austin Utilities — including affordable energy costs, better service, and a focus on local goals—stay in the Austin community.

No Stockholders, Just Neighbors.

Unlike private utilities, Austin Utilities is owned and operated by the citizens of Austin through the commissioners they elect. Local needs are considered when decisions are made about rates and services, power generation, gas purchasing, water quality and green alternatives. Your commissioners make sure utility revenues are reinvested in community programs and projects that are good for Austin.

Local Utility. Local Benefits.

Municipal utilities can be an economic boom to their community. In 2014, Austin Utilities paid \$1,648,106 to the city of Austin in lieu of taxes. This lowers everyone’s tax burden, and utility revenues get reinvested in programs and services that best suit Austin’s values and needs. Our staff live and work in the Austin area keeping jobs local and allowing us the ability to provide the most reliable, responsive service.

Local Control. Local Rewards.

In the end, municipal utilities put power in the hands of the public. Municipal utilities are not-for-profit and they are local. And that makes all the difference.

Purpose **Service**
Support Connected

Mission Statement

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



Insight

Rewarding
Community-building
Commitment



COMMUNITY EVENTS AND EDUCATION

If you haven't noticed yet, this report is all about our connection to the community. We work here and we live here so it is important to us that Austin is the best it can be. Here are a few more ways we touch the community.

Kids College

Each year we participate in the summer Kids College program at Riverland Community College. Kids explore renewable energy in this hands-on, electrifying class through a variety of activities including putting together and racing a model solar car, making their own light bulb, or generating electricity with their own model wind turbine. It is a great way for kids to learn and explore the world of energy all while having fun.

Electric Safety at Schools

Our linemen visit our local schools to teach kids valuable lessons on electric safety. Electricity is everywhere and we believe it is important to explain to kids how it works and why they follow safety rules like never climbing trees or flying kites near power lines.

Home and Vacation Show

We participate in Austin's annual Home and Vacation show each year and our staff volunteers to run the booth. It is a great way for us to engage with our customers. Our spin the wheel trivia game is popular and keeps us busy.

Energy Park Well House Open House

An open house was held for our new two million gallon Energy Park Well and Reservoir. The well operates at 1500 gallons per minute and has an anticipated life expectancy in excess of 50 years. We don't often make such large investments in our system so when we did, we opened it up to the public for viewing. Those that attended really enjoyed the learning experience.





Generosity Helpful Volunteer **Caring** Needs



In 2014, over 100 local seniors were helped through the CHORE program including lawn care, snow removal, and housekeeping services. Volunteers, like Austin Utilities Day of Caring team, contribute to the success of this program.

UNITED WAY

The United Way of Mower County raises over one million dollars a year for programs that support education, basic needs, health, and education. That money stays right here and directly impacts local individuals and families making Austin a better community for all of us.

Day of Caring

The United Way's Day of Caring is a community wide event where teams work together to complete projects for homeowners and organizations who are not able to complete the projects themselves. Most projects help senior citizens in our community remain independent and living in their own homes.

In 2014, over 100 local seniors were helped through the CHORE program including lawn care, snow removal, and housekeeping services. Volunteers, like Austin Utilities Day of Caring team, contribute to the success of this program.

Employee Campaign

Since 1997, Austin Utilities employees have raised \$115,000 for the United Way of Mower County. This money supports local programs that address community issues related to income, education, and health.



Food shelves across Minnesota have seen a 50% increase in usage since 2000. Statistics like that drive participation in our annual Salvation Army food drive.

Community-building Collaboration Rewarding



SALVATION ARMY

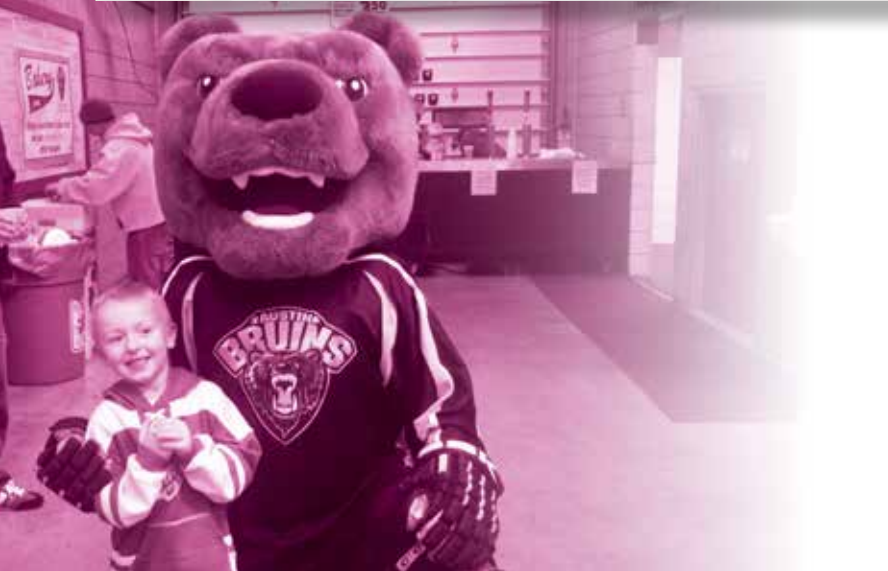
The Austin Salvation Army believes in faith put into action and making life better for others. Their services extend hope and meet physical, emotional and spiritual needs in our community to rebuild lives and create lasting change.

Employee Food Drive

Each year Austin Utilities staff participates in a friendly interdepartmental competition to see which department can collect the most food donations for the Salvation Army food shelf. We put some fun in the event but we all know the reality is there are people in our community that go to bed hungry many nights. We are happy to do our part to make a difference.

Stuff the Bus

When 20% of households in Mower County live below the poverty level and over 55% of students qualify for free and reduced lunch programs, the extra expense of purchasing school supplies can be a burden on families. Once a year, we participate with POWER 96 radio to get our staff and customers to Stuff the Bus with school supplies for local qualifying students. We are happy to see so many of our customers supporting us in this worthy cause.



Relationships Spirit Promote Support

PAINT THE TOWN PINK

There is a giving spirit that has grown in the Austin community called “Paint the Town Pink”. Paint the Town Pink has grown from one pink-themed hockey game into a county-wide initiative with dozens of fundraisers for breast cancer research at the world-renowned Hormel Institute. Main roads are lined with pink flags, and other pink décor is featured throughout the community.

Austin Utilities Paint the Town Pink Campaign

Austin Utilities staff has embraced the Paint the Town Pink spirit. Lobby and staff are both dressed up in Pink. We support and promote this fundraiser and our campaign continues to grow year after year. We sell pink ribbons and magnets to our staff and customers who want to show the pink spirit. Our lobby is bursting with pink decorations and lights and our service trucks adorn pink ribbon magnets. We also hold an employee raffle for the Bruins Paint the Rink Pink tickets. Over the years we have raised hundreds of dollars towards this campaign. Knowing that 100 percent of funds raised go directly into cutting-edge research focused on discoveries leading to the prevention and control of breast cancer makes this an easy program to support.



Our Employees... *working to enhance the quality of life in our community*

Administration – Mark Nibaur (General Manager)
Sarah Douty ~~ Roxann Gilbertson (retired 2015)

Electric Distribution – Tom Tylutki (Director) and Joe Kroc (Supervisor)
Pat Andera, Doug Barth, Bill Bumgarner, Colten Berghuis, Pat Donovan, Gilbert Ferguson, Jr., Mark Gerstner, Jeff Martinson, Russ Nelson, Daryl Prihoda, Kurt Regenscheid, Doug Rysavy, Steve Tiesg, Tyler Underdahl ~~ Brian Bushlack (retired 2014)

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

Gas Services – Rob Gleason (Supervisor)
Joe Bartholomew, Ryan Bell, Bob DeVriendt, Jessie Dumais, Gary Gabrielson, Brian Klapperick, Dave Maloney, Tony Merten, Heather Riddles, John Troupe, Chuck Tufte, Scott Wangen ~~ Jerry Buecksler (retired 2014)

Gas & Water Construction – Mike Mentel (Supervisor)
Matt Ball, Derek Berndt, Rob Cabeen, Jason Cummings, Will Granholm, Brian Gunderson, Wayne Guyette, Adam Heimer, Brandon Hemry, Pete Jacobsen, Marty Johnson, Lee Morem, Wade Nelson, Brandon Schaefer, Larry Sunderman

Engineering – Keven Maxa (Supervisor)
Samantha Bekaert, Jay Halleck, Jeff Majerus, Troy Tucker

Power Production – Alex Bumgardner (Director)

Generation – Jess Dunlap (Supervisor)
Steve Bissett, Bob Hyland, Mike Johnson, Tom Kitzman, Jay Kohnke, Duane McGonigle, Steve Millam, Dave White

Support Services – Kim Duncomb (Director)

Accounting/Finance – Ann Christianson (Manager)
Joan Maxfield, Dana Steichen ~~ Karen Kelly (retired 2014)

Customer Service – Melissa Swenson (Supervisor)
Brad Bednar, Joanne Benson, Jim Daily, Dar Duholm, Kerry Hall, Dale Helgeson, Beth Johannsen, John LaVelle, Mike Leidal, Jenny Loucks, Stan Rudenske, Dave Thompson, Wendy Whalen, Kara Wollschlager, ~~ Debbie Ball, Sherry Lunt, Marie Meyer (retired 2014)

Marketing and Energy Services Manager – Kelly Lady

Information Systems – Butch Goergen (Manager)
Jonas Morehouse

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

of Austin Board, Mower County Humane Society, Red Cross Blood Donor, Red Cross Board, Marcusen Park Board, Mower County 4-H, Mower
Committee, Vision 2020 Downtown Power Plant Revitalization Committee, Vision2020 Iconic Overpass Committee, YMCA Youth Coach

Queen of Angels building and grounds committee, Salvation Army Food Drive, Spruce Up Austin, US Postal Service Food Drive, United Way Board,

Austin City Employees Credit Union, Austin Youth Basketball, Austin Youth Football Austin Youth Hockey, Boy Scouts & Girl Scout Fundraisers, Early Risers Kiwanis,

INDEPENDENT AUDITORS' REPORT

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013 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 and the Schedule of Funding Progress for Postemployment Benefit Plan 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.

Clifton Larson Allen LLP
Austin, Minnesota
March 2, 2015

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2014 AND 2013

FINANCIAL STATEMENTS OVERVIEW

This discussion and analysis of Austin Utilities' performance provides an overview of the Utilities' activities for the years ended December 31, 2014 and 2013. 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 and obligations (liabilities) 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, non-capital related, capital and related financing activities, and investing activities.

FINANCIAL HIGHLIGHTS

- The net position of Austin Utilities exceeded liabilities at the close of 2014 in the amount of \$59,658,782 (Net Position). This is an increase of \$4,121,247 over net position at the close of 2013.
- By far the largest portion of Austin Utilities net position (69 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.
- Cash flows from operations and the remaining proceeds from the 2012 issuance of General Obligation Water Revenue Bonds Series 2012A provided cash flows to cover plant needs as capital expenditures for 2014 were \$3,593,091. The electric department had capital expenditures of \$1,176,832 which included \$419,500 for substation improvements and \$757,332 for line transformers, meters, developments, line extensions and conversions. The water department had capital expenditures of \$1,182,718 which included \$1,031,225 for main extensions, replacements and hydrants, and \$151,493 for meters. The water department installed over 8,901 feet of new water main during 2014. The gas department had capital expenditures of \$518,687, which included \$170,833 for meters and \$347,854 for mains, services and measuring & regulating station equipment. The gas department installed over 9,236 feet of new gas main in 2014. General Plant capital expenditures were \$714,854 in 2014 which included \$639,076 in structures & improvements that is included in construction in progress for the new central facility and \$75,778 for equipment.

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

Condensed Balance Sheets

	2014	2013	2012
Capital Assets, Net	\$ 46,343,336	\$ 44,844,413	\$ 39,695,509
Current Assets	13,239,416	12,346,922	11,655,521
Noncurrent Assets	13,663,010	12,738,251	1,785,747
Other Assets	1,258,580	1,462,750	1,671,532
Total Assets	<u>\$ 74,504,342</u>	<u>\$ 71,392,336</u>	<u>\$ 70,880,009</u>
Current Liabilities	\$ 6,274,001	\$ 7,103,362	\$ 6,486,917
Long-Term Liabilities			
Accrued Sick Leave	1,906,961	1,928,486	1,826,645
Long-Term Debt	4,665,293	5,020,772	5,371,251
OPEB Liability	1,999,305	1,802,181	1,586,982
Total Liabilities	<u>14,845,560</u>	<u>15,854,801</u>	<u>15,271,795</u>
Net Position			
Net Investment in Capital Assets	41,345,805	40,067,286	36,113,179
Unrestricted	18,312,977	15,470,249	19,495,035
Total Net Position	<u>59,658,782</u>	<u>55,537,535</u>	<u>55,608,214</u>
Total Net Position and Liabilities	<u>\$ 74,504,342</u>	<u>\$ 71,392,336</u>	<u>\$ 70,880,009</u>

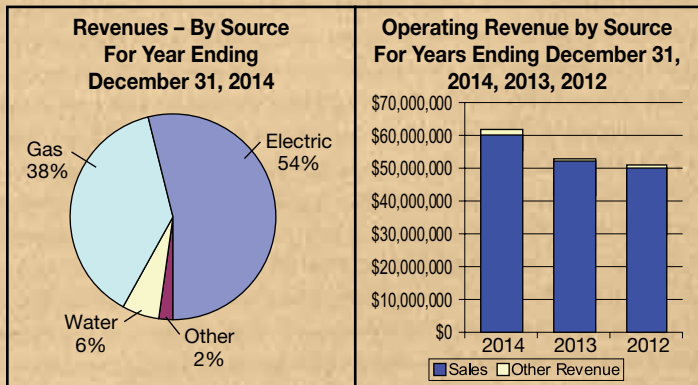
Condensed statement of net position highlights are as follows for the year ended December 31, 2014:

- Current assets increased \$892,494. Current asset consist of cash and working funds, temporary investments (maturities of one year or less), accounts receivable, inventories, and prepayments.
- Non-current assets increased during 2014 in the amount of \$924,759. The increase was due to the increase in investments.
- Other Assets decreased \$204,170. Prepaid expenditures within this classification include preliminary survey and investigation charges, unavailable water assessments, and expenditures for water tower maintenance. Water tower maintenance expenses decreased \$201,206 and unavailable assessments decreased \$2,964.
- Current liabilities decreased \$829,361 at the end of 2014, which included the current portion of the GO Water Revenue Bonds Series 2012A of \$355,479.
- Long-Term Debt decreased \$355,479.
- Long-Term liability Other Post-Employment Benefits Payable increased \$197,124 in 2014.
- Accrued sick leave decreased \$21,525 in 2014.
- Net position increased \$4,121,247 in 2014.

Condensed statement of net position highlights are as follows for the year ended December 31, 2013:

- Current assets increased \$691,401. 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 2013 in the amount of \$5,119,196. The decrease was due to the decrease in the Construction Account-GO Water Revenue Bonds Series 2012A, as well as decreases to the health insurance fund and other investments.
- Other Assets decreased \$208,782. Prepaid expenditures within this classification include preliminary survey and investigation charges, unavailable water assessments, and expenditures for water tower maintenance. Water tower maintenance expenses decreased \$206,544 and unavailable assessments decreased \$2,238.
- Current liabilities increased \$616,445 at the end of 2013, which included the current portion of the GO Water Revenue Bonds Series 2012A of \$350,479.
- Long-Term Debt decreased \$350,479.
- Long-Term liability Other Post-Employment Benefits Payable increased \$215,199 in 2013.
- Accrued sick leave increased \$101,841. Accrued sick leave was \$1,928,486 at December 31, 2013.
- Net position decreased \$70,679 in 2013.

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



The following table summarizes revenues, expenses, and changes in net position of Austin Utilities for the years ended December 31, 2014, 2013, and 2012:

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

	2014	2013	2012
Electric			
Operating Revenues, Electric Sales	\$ 33,379,559	\$ 32,111,522	\$ 33,119,011
Other Electric Operating Revenues	1,089,337	629,685	559,471
Total Electric Operating Revenues	34,468,896	32,741,207	33,678,482
Operating Expenses	32,951,564	32,968,740	33,066,127
Total Electric Operating Income	1,517,332	(227,533)	612,355
Other & Misc Electric Income (Expense)	823,005	(216,923)	137,298
Interest Expense, Net	(259)	(635)	(268)
Capital Contributions in Aid of Construction	—	333,621	—
Change in Net Position, Electric	2,340,078	(111,470)	749,385
Water			
Operating Revenues, Water Sales	3,926,478	3,640,316	2,746,763
Other Water Operating Revenues	72,483	65,329	60,357
Total Water Operating Revenues	3,998,961	3,705,645	2,807,120
Operating Expenses	3,780,597	3,600,217	2,857,600
Total Water Operating Income	218,364	105,428	(50,480)
Other & Misc Water Income (Expense)	184,346	(102,603)	(25,745)
Interest Expense, Net	(50,207)	—	(25,059)
Capital Contributions in Aid of Construction	8,406	2,158	—
Change in Net Position, Water	360,909	4,983	(101,284)
Gas			
Operating Revenues, Gas Sales	23,954,178	17,309,343	14,055,272
Other Gas Operating Revenues	102,122	92,225	78,806
Total Gas Operating Revenues	24,056,300	17,401,568	14,134,078
Operating Expenses	23,035,582	17,132,929	13,914,516
Total Gas Operating Income	1,020,718	268,639	219,562
Other & Misc Gas Income (Expense)	388,551	(254,713)	109,459
Interest Expense, Net	(259)	(635)	(268)
Capital Contributions in Aid of Construction	11,250	22,517	—
Change in Net Position, Gas	1,420,260	35,808	328,753
Total Change in Net Position	\$ 4,121,247	\$ (70,679)	\$ 976,854
Beginning Net Position	\$ 55,537,535	\$ 55,608,214	\$ 54,631,360
Change in Net Position	4,121,247	(70,679)	976,854
Ending Net Position	\$ 59,658,782	\$ 55,537,535	\$ 55,608,214

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

Electric 2014 Compared to 2013

- Revenue from electric sales increased in the amount of \$1,268,037. Other electric operating revenue increased \$459,652. Total revenue per unit increased 5.0% from a unit price of \$0.0956 per kwhr 2013 to \$0.1004 in 2014 as a result of the rate increase approved at the November 2013 board meeting. The increase in other electric revenues was a result of additional rebate reimbursements received by our wholesale provider SMMPA for energy conservation measures taken by our customers.
- Operating expenses decreased \$17,176 in 2014. Steam power generation expenses and gas turbine generation expenses decreased \$287,719 due to decreased operating costs of the electric plant. Power supply expenses decreased \$344,369 due to a decreased demand and energy costs in 2014 as purchases were less from our wholesale provider SMMPA. Distribution expenditures increased \$226,180 due to the increase in maintenance of overhead lines as repairs were necessary to our 69kv east loop line after a June 2014 storm. Other operating expenses increased \$348,732, a result of an increase in customer assistance expenses for the additional conserve and save rebates given

to our customers and additional expenses in employee pensions and benefits.

- Other electric income and capital contributions in aid of construction increased \$706,307. Higher market values on the utility investments and a gain on the sale of the coal inventory accounted for this increase.
- Interest expense decreased \$376 as interest expense paid on customer deposits decreased in 2014.

Electric

2013 Compared to 2012

- Revenue from electric sales decreased in the amount of \$1,007,489. Other electric operating revenue increased \$70,214. Sales by volume decreased in 2013, a result of the cooler summer. The increase in other electric revenues was a result of a ZRC Capacity purchase agreement signed with SMMPA in June 2013, which resulted in \$56,000 of revenue.
- Operating expenses decreased \$97,387 in 2013. Steam power generation expenses and gas turbine generation expenses decreased \$614,941 due to decreased operating costs of the electric plant. Power supply expenses increased slightly \$67,729 due to a reduction of cost adjustments in 2013 from our wholesale provider SMMPA and increased labor costs in system control and dispatching. Distribution expenditures increased \$12,406 due to the increase in miscellaneous distribution expenses. Other operating expenses increased \$437,419, a result of an increase in employee pensions and benefits and additional depreciation expenses for electric capital additions.
- Other electric income and capital contributions in aid of construction decreased \$20,600. Low market values on the utility investments accounted for this decrease.
- Interest expense increased \$367 as interest expense paid on customer deposits increased in 2013.

Water

2014 Compared to 2013

- Revenue from the sale of water increased \$286,162. Other water revenue increased in the amount of \$7,154. Sales of water by volume increased 6.6% due to increased sales to our customers. The increase in other water revenues was due to refund of state sales tax paid and an increase in the number water taps done for customers.
- Operating expenses increased \$180,380. Water production increased due to an increase in power purchased for pumping, pumping labor and increased chemical expenditures as a result of our increased sales volume. Distribution expenses increased as a result of increased maintenance costs in distribution mains and services due to the extremely cold winter weather in 2014. There were 31 water main breaks repaired in 2014 compared to 21 water main breaks in 2013. In 2014, 39 customer-owned water service lines were repaired or replaced. The department also replaced and reconnected 137 existing water service lines in 2014 during water main replacement projects. In 2013 there were 29 water service lines repaired or replaced and 110 replacements and reconnects during water main projects. Other operating expenses increased \$20,176 as a result of increased property insurance and outside engineering services for future water storage options.
- Other water income and capital contributions in aid of construction increased \$293,197. Higher market values on the utility investments accounted for this increase.
- Interest expense increased \$50,207 for interest relating to the water bonds issued in 2012.

Water

2013 Compared to 2012

- Revenue from the sale of water increased \$893,553. Other water revenue increased in the amount of \$4,972. Sales of water by volume increased 76.1% due to providing our industrial customer their full water consumption. The increase in other water revenues was due to the lease of garage space for stor-

age to our industrial customer.

- Operating expenses increased \$742,617. Water production increased due to an increase in power purchased for pumping, pumping labor and increased chemical expenditures as a result of our increased sales volume. Distribution expenses increased as a result of increased maintenance costs in distribution reservoirs & standpipes as well as mains. In 2013, 29 customer-owned water service lines were repaired or replaced. The department also replaced and reconnected 110 existing water service lines in 2013 during water main replacement projects. In 2012 there were 24 water service lines repaired or replaced and 117 replacements and reconnects during water main projects. There were 21 water main breaks repaired in 2013 compared to 19 water main breaks in 2012. Other operating expenses increased \$239,051 as a result of increased employee pensions and benefits and depreciation expenses the water capital additions.
- Other water income and capital contributions in aid of construction decreased \$74,700. Low market values on the utility investments accounted for this decrease.
- Interest expense decreased \$25,059 as interest expense on the water bonds was capitalized according to accounting requirements.

Gas

2014 Compared to 2013

- Revenue from the sale of natural gas increased \$6,644,835 in 2014. The volume of gas sold increased 7.7 percent in 2014 as we had an extremely cold winter, this increased revenue by \$1,732,997. Total revenue per unit increased 28.5% from a unit price of \$7.0568 per mcf in 2013 to \$9.0671 in 2014. The change in revenue due to price increased sales by \$4,911,838 in 2014.
- Operating expenses increased \$5,902,653 in 2014. The price of natural gas purchased in 2014 was 42.8 percent higher than 2013 as the winter of 2013-2014 from December-February was the coldest meteorological winter in 35 years according to the Minnesota Department of Natural Resources, this accounted for \$5,587,068 of increased expenses. Local storage expenses decreased \$3,539. Distribution expenses increased \$92,281. Other operating expenses increased \$226,845 a result of additional expenses in customer assistance expenses relating to rebates given to customers for energy conservation efforts in 2014.
- Other gas income and capital contributions in aid of construction increased \$631,997. Higher market values on the utility investments accounted for this increase.
- Interest expense decreased \$376 as interest expense paid on customer deposits decreased in 2014.

Gas

2013 Compared to 2012

- Revenue from the sale of natural gas increased \$3,254,071 in 2013. The volume of gas sold increased 10.6 percent in 2013 as we had a more typical winter when compared to the warm winter we encountered in 2012, this increased revenue by \$2,129,509. Total revenue per unit increased 11.3% from a unit price of \$6.3397 per mcf in 2012 to \$7.0568 in 2013. The change in revenue due to price increased sales by \$1,124,562 in 2013.
- Operating expenses increased \$3,218,413 in 2013. The price of natural gas purchased in 2013 was 11.54 percent higher than 2012 which accounted for \$2,671,646 of increased expenses. Local storage expenses increased \$5,351. Distribution expenses increased \$197,851. Other operating expenses increased \$343,565 in 2013.
- Other gas income and capital contributions in aid of construction decreased \$341,655. Low market values on the utility investments accounted for this decrease.
- Interest expense increased \$367 as interest expense paid on customer deposits increased in 2013.

Combined Utilities

2014 Compared to 2013

• The total change in net position in 2014 was an increase in the amount of \$4,121,247 as compared to a decrease of \$70,679 in 2013. The 2014 increase is the result of combined operating income in the amount of \$2,756,414 and other income and capital contributions in aid of construction in the amount of \$1,415,558 and reduced by interest expense in the amount of \$50,725.

2013 Compared to 2012

• The total change in net position in 2013 was a decrease in the amount of \$70,679 as compared to an increase of \$976,854 in 2012. The 2013 decrease is the result of combined operating income in the amount of \$146,534, and was reduced by other income and capital contributions in aid of construction in the amount of \$215,943 and interest expense in the amount of \$1,270.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

• The Utilities investment in capital assets as of December 31, 2014 amounts to \$46,343,336 (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 CAPITAL ASSETS (Net of Depreciation)

	2014	2013	Dollar Change
Land and Land Rights	\$ 615,374	\$ 615,374	\$ —
Electric Plant in Service	16,471,042	16,313,709	157,333
Water Plant in Service	16,371,157	15,553,224	817,933
Gas Plant in Service	7,281,029	7,055,510	225,519
General Plant in Service	4,952,877	5,306,596	(353,719)
Construction in Progress	651,857	—	651,857
	<u>\$ 46,343,336</u>	<u>\$ 44,844,413</u>	<u>\$ 1,498,923</u>

	2013	2012	Dollar Change
Land and Land Rights	\$ 615,374	\$ 617,125	\$ (1,751)
Electric Plant in Service	16,313,709	14,266,803	2,046,906
Water Plant in Service	15,553,224	13,161,093	2,392,131
Gas Plant in Service	7,055,510	6,837,442	218,068
General Plant in Service	5,306,596	4,813,046	493,550
	<u>\$ 44,844,413</u>	<u>\$ 39,695,509</u>	<u>\$ 5,148,904</u>

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

Long-Term Debt:

• In 2014 long term debt decreased in the amount of \$355,479 and the current portion due in 2015 is \$350,000. In 2013 long term debt decreased in the amount of \$350,479 and the current portion due in 2014 was \$345,000. See Note 7 to the financial statements for more details related to changes in debt.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Economic factors that Austin Utilities is currently facing and which could have an impact on our rates are the current Climate Change Legislation (Co2 legislation) and the Renewable Energy Standard.

Austin Utilities implemented new rates in water department in January 2015 as recommended by an outside rate analyst who completed a cost-of-service and unbundled rate study of the water department in 2014. The electric de-

partment implemented a purchased cost adjustment in January 2015 until a cost-of-service and unbundled rate study is completed in 2015 for the electric and gas departments. On November 17, 2014 the Austin Utilities Board of Commissioners approved the 2015 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, 400 4th Street NE, Austin, Minnesota 55912.

STATEMENTS OF NET POSITION

December 31,	2014	2013
ASSETS		
UTILITY PLANT		
Plant in Service	\$ 95,536,826	\$ 93,816,144
Construction in Progress	651,857	—
Less Accumulated Depreciation	(49,845,347)	(48,971,731)
Net Utility Plant	<u>46,343,336</u>	<u>44,844,413</u>

OTHER PROPERTY AND INVESTMENTS

Non-Utility Property (Net of Accumulated Depreciation)	23,241	24,773
Special Funds	4,928,412	5,375,733
Other Investments	8,711,357	733,745
Total Other Property and Investments	<u>13,663,010</u>	<u>12,738,251</u>

CURRENT ASSETS

Cash and Cash Equivalents	737,553	5,644,666
Accounts Receivable (Less Allowance for Uncollectible Accounts of \$200,000 in 2013 and 2012)	3,836,964	3,829,815
Partnering in Energy Loan Receivable (Less Allowance for Uncollectible Accounts of \$0 in 2013 and 2012)	6,034	41,132
Other Accounts Receivable (Less Allowance for Uncollectible Accounts of \$2,000 in 2013 and 2012)	120,531	388,016
Inventories	1,650,131	2,172,997
Prepaid Expenses	252,203	270,296
Total Current Assets	<u>13,239,416</u>	<u>12,346,922</u>

OTHER ASSETS

Total Assets	<u>1,258,580</u>	<u>1,462,750</u>
	<u>\$ 74,504,342</u>	<u>\$ 71,392,336</u>

NET POSITION AND LIABILITIES

	2014	2013
NET POSITION		
Net Investment in Utility and Non-Utility Plant	\$ 41,345,805	\$ 40,067,286
Unrestricted	18,312,977	15,470,249
Net Position	<u>59,658,782</u>	<u>55,537,535</u>

LONG-TERM LIABILITIES

Accrued Sick Leave	1,906,961	1,928,486
Bonds Payable	4,665,293	5,020,772
Other Postemployment Benefits Payable	1,999,305	1,802,181
Total Long-Term Liabilities	<u>8,571,559</u>	<u>8,751,439</u>

CURRENT LIABILITIES

Accounts Payable	4,365,443	5,101,368
Accrued Expenses	915,257	1,040,238
Current Portion of Bonds Payable	355,479	350,479
Other Current Liabilities	637,822	611,277
Total Current Liabilities	<u>6,274,001</u>	<u>7,103,362</u>

Total Net Position and Liabilities	<u>\$ 74,504,342</u>	<u>\$ 71,392,336</u>
------------------------------------	----------------------	----------------------

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31,	2014	2013
OPERATING REVENUES		
Sales	\$ 61,260,215	\$ 53,061,181
Forfeited Discounts	252,006	239,413
Other Operating Revenues	1,011,936	547,826
Total Operating Revenues	62,524,157	53,848,420
OPERATING EXPENSES		
Purchases	41,497,179	36,254,483
Production	2,091,822	2,367,325
Distribution	5,225,720	4,722,810
Other Operating Expenses	10,953,022	10,357,268
Total Operating Expenses	59,767,743	53,701,886
OPERATING INCOME	2,756,414	146,534
OTHER REVENUES (EXPENSES)		
Merchandising Contract Work	500	1,500
Investment Income (Loss)	1,050,381	(695,662)
Interest Expense	(50,725)	(1,270)
Other Revenues (Expenses)	5,479	139
Gain on Sale of Inventory	321,942	—
Gain on Disposal of Property	17,600	119,784
Total Other Revenues (Expenses)	1,345,177	(575,509)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	4,101,591	(428,975)
Capital Contributions	19,656	358,296
CHANGE IN NET POSITION	4,121,247	(70,679)
NET POSITION, BEGINNING	55,537,535	55,608,214
NET POSITION, ENDING	\$ 59,658,782	\$ 55,537,535

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31,	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$ 61,555,102	\$ 52,434,555
Cash Received From Others	1,281,702	349,029
Cash Paid to Suppliers	(49,571,589)	(42,573,158)
Cash Paid to Employees	(6,312,388)	(5,698,419)
Payments in Lieu of Property Taxes	(1,647,532)	(1,612,060)
Net Cash Provided by Operating Activities	5,305,295	2,899,947
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Interest Paid on Customer Deposits	(868)	(939)
Proceeds from Sale of Inventory	321,942	—
Proceeds from Merchandising/Contract Work	500	1,500
Net Cash Provided by Non-Capital Financing Activities	321,574	561
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction and Acquisition of Plant	(3,593,0391)	(7,399,783)
Proceeds from Sale of Assets	6,786	106,560
Proceeds from Contributions in Aid of Construction	19,656	358,296
Interest Paid	(111,106)	(166,042)
Principal Payments on Bonds	(345,000)	(305,000)
Net Cash Used by Capital and Related Financing Activities	(4,022,755)	(7,405,969)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Other Investments and Special Funds	(754,7354)	(14,551,514)
Sales of Other Investments and Special Funds	7,390,398	18,705,152
Interest Income	281,729	295,066
Net Cash Provided by Investing Activities	124,773	4,448,704
NET DECREASE IN CASH AND CASH EQUIVALENTS	1,728,887	(56,757)
Cash and Cash Equivalents - Beginning	5,644,666	5,701,423
CASH AND CASH EQUIVALENTS - ENDING	\$ 7,373,553	\$ 5,644,666
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 2,756,414	\$ 146,534
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	2,166,839	2,382,332
Decrease (Increase) in Other Assets	204,170	203,444
Increase (Decrease) in Accrued Sick Leave	(21,525)	101,841
Increase (Decrease) in Other Postemployment Benefits Payable	197,124	215,199
(Increase) Decrease in:		
Customer Accounts Receivable	(7149)	(884,264)
Partnering in Energy Solutions Receivable	35,098	29,886
Other Accounts Receivable	266,802	(201,035)
Materials and Supplies Inventory	522,866	259,159
Prepaid Expenses	18,093	21,393
Increase (Decrease) in:		
Accounts Payable	(735,925)	631,739
Accrued Expenses	(124,056)	84,568
Claims Payable for Health Benefits	—	(62,796)
Other Liabilities	26,544	(28,053)
Net Cash Provided by Operating Activities	\$ 5,305,295	\$ 2,899,947
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash Transactions -		
Change in Fair Value of Investments	\$ 769,335	\$ (964,025)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Basis of Presentation**

The financial statements of Austin 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 U.S. generally accepted accounting principles 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 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.

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.

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. \$60,324 and \$116,698 was interest capitalized in 2014 and 2013, 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 31, the Utilities records its investments at fair value, except for non-negotiable certificates of deposit, which are stated at cost.

G. Inventory

Stores and materials inventory and fuel oil inventory are costed on a moving weighted average method. Fuel coal is costed on the latest invoice price. All inventories are stored by the Utilities.

H. Sick Leave and Post-Retirement Benefits

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

In addition to providing pension benefits, the Utilities offers health insurance benefits for all retired employees. The maximum employer's obligation is \$1,150 annually, 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.

I. Revenue Recognition

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

J. 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 \$1,648,106 and \$1,624,827 in 2014 and 2013, respectively.

K. 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.

NOTE 2 DETAIL OF UTILITY PLANT

Utility plant activity was as follows:

As of December 31, 2014	Beginning Balance	Additions	Retirements	Ending Balance
Land and Land Rights	\$ 615,374	\$ —	\$ —	\$ 615,374
Construction Work in Progress	—	651,857	—	651,857
Utility Plant in Service	93,200,770	3,001,557	(1,280,875)	94,921,452
Less Accumulated Depreciation for Utility Plant in Service	(48,971,731)	(2,166,839)	1,293,223	(49,845,347)
Capital Assets, Net	\$ 44,844,413	\$ 1,486,575	\$ 12,348	\$ 46,343,336

As of December 31, 2013	Beginning Balance	Additions	Retirements	Ending Balance
Land and Land Rights	\$ 617,125	\$ —	\$ (1,751)	\$ 615,374
Utility Plant in Service	87,411,971	7516,473	(1,727,674)	93,200,770
Less Accumulated Depreciation for Utility Plant in Service	(48,333,587)	(2,382,332)	1,744,188	(48,971,731)
Capital Assets, Net	\$ 39,695,509	\$ 5,134,141	\$ 14,763	\$ 44,844,413

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, 2014 and 2013:

	2014	2013
Water Bonds Construction Fund	\$ —	\$ 850,226
Employee Sick Pay Benefits Fund	1,845,915	1,638,463
General Liability Insurance Fund	1,091,095	987,098
Flexible Spending Account	20,607	13,681
Other Postemployment Benefits Fund	1,970,795	1,886,265
	\$ 4,928,412	\$ 5,375,733

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, 2014 and 2013 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.

The Utilities had the following investments at December 31, 2014:

	Investment Maturities in Years				
	Fair Value	Less Than 1	1-5 Years	6-10 Years	More than 10
Federal Home Loan Bank Notes	\$ 2,498,665	\$ —	\$ 1,514,595	\$ —	\$ 984,070
Federal National Mortgage Association Notes	1,485,230	—	499,970	—	985,260
Federal Home Loan Mortgage Corporate Discount Notes	5,878,825	—	1,000,770	3,426,535	1,451,520
Federal Farm Credit Bank Notes	2,460,245	—	500,805	977,430	982,010
USB Select Money Market Fund	1,296,197	1,296,197	—	—	—
	\$ 13,619,162	\$ 1,296,197	\$ 3,516,140	\$ 4,403,965	\$ 4,402,860

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.

Credit Risk

As of December 31, 2014, 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, their 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, 2014 the Utility had

invested \$1,296,197 in the UBS Select Money Market Fund. This investment fund is rated Aaa-m 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 percent of the Utilities' total investments:

	2014 Fair Value	2013 Fair Value
USB Select Money Market	\$ 1,296,197	\$ 1,646,166
Federal Farm Credit Bank Notes	2,460,245	1,730,470
Federal Home Loan Bank Notes	2,498,665	900,310
Federal National Mortgage Association Notes	1,485,230	2,402,175
Federal Home Loan Mortgage Corporate Discount Notes	5,878,825	6,020,675
Repurchase Agreement - US Bank	3,253,327	—
	<u>\$ 16,872,489</u>	<u>\$ 12,699,796</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, 2014, the Utilities did not have any such arrangements.

C. Balance Sheet Presentation

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

	2014	2013
Deposits	\$ 4,140,833	\$ 5,658,348
Repurchase Agreement - US Bank	3,253,327	—
Investments	13,619,162	12,699,796
	<u>\$ 21,013,322</u>	<u>\$ 18,358,144</u>
Statement of Net Position:		
Cash and Cash Equivalents	\$ 7,373,553	\$ 5,644,666
Special Funds	4,928,412	5,375,733
Other Investments	8,711,357	7,337,745
Total	<u>\$ 21,013,322</u>	<u>\$ 18,358,144</u>

NOTE 5 INVENTORIES

Inventories consist of the following at December 31, 2014 and 2013:

	2014	2013
Fuel Oil	\$ —	\$ 2,820
Fuel Coal	—	396,916
Plant Materials and Operating Supplies	1,650,131	1,773,261
	<u>\$ 1,650,131</u>	<u>\$ 2,172,997</u>

NOTE 6 OTHER ASSETS

Other assets consist of the following at December 31, 2014 and 2013.

	2014	2013
Water Tower Maintenance	\$ 1,158,229	\$ 1,359,435
Unavailable Special Assessments	100,351	103,315
	<u>\$ 1,258,580</u>	<u>\$ 1,462,750</u>

The Water Tower Maintenance charges are being amortized over a ten year

period. Unavailable 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.

NOTE 7 LONG-TERM LIABILITIES

A. Description of Long-Term Liabilities

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.

B. Minimum Future Debt Payments

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

Year Ended December 31,	Principal	Interest
2015	\$ 350,000	\$ 104,206
2016	350,000	97,206
2017	355,000	90,206
2018	360,000	83,106
2019	365,000	75,906
2020 - 2024	1,920,000	267,732
2025 - 2027	1,250,000	60,813
	<u>\$ 4,950,000</u>	<u>\$ 779,175</u>

C. Changes in Long-Term Debt

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

As of December 31, 2014	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
G.O. Water Revenue					
Bonds, Series 2012A	\$ 5,295,000	\$ —	\$(345,000)	\$ 4,950,000	\$ 350,000
Bond Premium	76,251	—	(5,479)	70,772	5,479
Other Postemployment Benefits Payable	1,802,181	1,041,132	(844,008)	1,999,305	—
	<u>\$ 7,173,432</u>	<u>\$ 1,041,132</u>	<u>\$(1,194,487)</u>	<u>\$ 7,020,077</u>	<u>\$ 355,479</u>
As of December 31, 2013	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
G.O. Water Revenue					
Bonds, Series 2012A	\$ 5,600,000	\$ —	\$(305,000)	\$ 5,295,000	\$ 345,000
Bond Premium	81,730	—	(5,479)	76,251	5,479
Other Postemployment Benefits Payable	1,586,982	1,046,541	(831,342)	1,802,181	—
	<u>\$ 7,268,712</u>	<u>\$ 1,046,541</u>	<u>\$(1,141,821)</u>	<u>\$ 7,173,432</u>	<u>\$ 350,479</u>

NOTE 8 ACCRUED SICK LEAVE

Accrued sick leave consisted of \$1,906,961 and \$1,928,486 as of December 31, 2014 and 2013, 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, 2014 and 2013, the Utilities had specifically restricted investments totaling \$1,845,915 and \$1,638,463, respectively, or 97% and 85% in 2014 and 2013 of the accumulated benefits.

NOTE 9 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

All full-time and certain part-time employees of Austin Utilities are covered by a defined benefit plan administered by the Public Employees' Retirement

Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan.

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

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for the employer and employee contributions. These statutes are established and amended by the state legislature. The Utilities makes annual contribution to the pension plans equal to the amount required by State Statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary.

The Utilities is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan members. The Utilities' contributions to the General Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$438,283, \$425,011, and \$411,207, respectively. The Utilities' contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 10 OTHER POSTEMPLOYMENT BENEFIT PLAN

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 84 active participants and 76 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.

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 \$844,008 and \$831,342 to the plan for fiscal years 2014 and 2013, 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 thirty years. The following table shows the components of the Utilities' annual OPEB cost for the year, the amount actually paid from the plan, and changes in the Utilities' net OPEB obligation.

	2014	2013
Annual Required Contribution	\$ 1,076,695	\$ 1,076,695
Interest on Net OPEB Calculation	72,087	63,479
Adjustment to Annual Required Contribution	(107,650)	(93,633)
Annual OPEB Cost (Expense)	1,041,132	1,046,541
Contributions Made	(844,008)	(831,342)
Increase in Net OPEB Obligation	197,124	215,199
Net OPEB Obligation - Beginning of Year	1,802,181	1,586,982
Net OPEB Obligation - End of Year	\$ 1,999,305	\$ 1,802,181

The Utilities' annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2014, 2013 and 2012 are:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 1,041,132	81.1%	\$ 1,999,305
12/31/2013	1,046,541	79.4%	1,802,181
12/31/2012	1,029,999	71.6%	1,586,982

D. Funded Status and Funding Progress

As of January 1, 2013, the most recent actuarial valuation date, the Utilities unfunded actuarial accrued liability (UAAL) was \$14,087,950. The annual payroll for active employees covered by the plan in the actuarial valuation was \$5,567,070 for a ratio of UAAL to covered payroll of 253.1%.

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, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 7.5% reduced by decrements to an ultimate rate of 5% after five years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2014 does not exceed 30 years.

NOTE 11 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 \$84,485,737.

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, 2014.

In 2013, 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.

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

NOTE 12 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 3,232,100 thousand cubic feet of natural gas through October 2019 for a total commitment of \$14,364,725 at December 31, 2014.

Litigation

A personal injury lawsuit has been filed against the Utilities. The Utilities intends to vigorously defend itself against the litigation. The Utilities is currently unable to estimate a liability, if any, that would result from this matter.

Economic Dependency

During the years ended December 31, 2014 and 2013 net sales to Hormel Foods Corporation amounted to \$18,704,475 and \$15,633,142, respectively. Sales to this customer accounted for 10% or more of the total revenue of the

Utilities for those years.

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)	UAA as a Percentage of Covered Payroll ((b-a)/c)
1/1/2013	\$ -	\$ 14,087,950	\$ 14,087,950	0.0%	\$ 5,567,070	253.1%
1/1/2010	-	14,043,099	14,043,099	0.0%	5,902,318	237.9%
1/1/2008	-	12,803,784	12,803,784	0.0%	6,707,512	190.9%



Teamwork
Collaboration
Commitment
Investment

Coming in 2016 . . . Austin Utilities Energy Park facility

In October 2014, at a special board meeting, AU Board of Commissioners voted to approve the construction of a new facility. After years of planning we broke ground on April 14th 2015 on our new building located at 1908 14th St NE in Austin's industrial park. This will give us the opportunity to have all our staff located in one central building, allow us to meet and exceed the excellent customer service our customers have come to expect from us, and achieve cost savings from operational efficiencies. The building is expected to be completed in the fall of 2016.



400 4th St NE
Austin MN 55912
507.433.8886
www.AustinUtilities.com