ANNUAL FINANCIAL REPORT (Unaudited)

CITY OF AUSTIN
DEPARTMENT OF AVIATION

AUSTIN-BERGSTROM INTERNATIONAL AIRPORT

For the year ended
September 30, 2015
(Unaudited)

Prepared by:
Department of Aviation
Finance Division

David Arthur, CPA
Assistant Director and Chief Financial Officer

CITY OF AUSTIN
DEPARTMENT OF AVIATION
AUSTIN-BERGSTROM INTERNATIONAL AIRPORT

ANNUAL FINANCIAL REPORT (Unaudited)
Year Ended September 30, 2015

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DEPARTMENT OF AVIATION
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SEPTEMBER 30, 2015

We are pleased to present the Annual Financial Report (Report) for Austin-Bergstrom International Airport (ABIA), operated by the Aviation Department of the City of Austin, Texas for the fiscal year ended September 30, 2015.

Airport management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentations, including all disclosures. We believe the data, as presented, are accurate in all material respects and are presented in a manner which fairly sets forth the financial position and results of operations of the Airport. These financial statements have been prepared by the Finance Division of the Department of Aviation of the City of Austin, Texas.

The basic financial statements and related notes have been not been audited but contain the financial information presented in the City of Austin Comprehensive Annual Financial Report (CAFR) that has been audited by the independent firm of Certified Public Accountants Deloitte & Touche LLP. This Report is intended to complement the City of Austin CAFR and should be read in conjunction with it.

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor who is elected at large and ten Councilmembers who are elected by geographic district. The Department of Aviation (the Department) is a department within the City and is included as an enterprise fund under the City's comprehensive annual financial report.

As a local government, the City is not subject to federal income taxes, under the Internal Revenue Code Section 115. Furthermore, it is not subject to state sales tax.

The Aviation Department operates Austin-Bergstrom International Airport (the Airport). The 4,240 acre Airport opened in 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. The 700-acre Mueller site has been redeveloped as a mixed-use urban community by the City of Austin and is not part of the Airport System. The Airport is classified by the Federal Aviation Administration (FAA) as a medium hub airport.

A variety of federal, state and local laws, agreements, and regulations govern the operations at the Airport. The FAA has general jurisdiction over flying operations, including personnel, aircraft, ground facilities, and other technical matters, as well as certain environmental matters. Pursuant to the Airport and Airway Improvement Act of 1982 and other statutes, the City is constrained from transferring Airport revenues to its General Fund. This restriction is embodied in the federal grant agreements entered into by the City. Additionally, federal laws govern the reasonableness of fees that may be charged for the use of Airport facilities, Airport noise limits, and impose certain other restrictions on the City and Airport operations.

The vision of Austin-Bergstrom International Airport is to be the airport of choice for Central Texas and our mission is to connect our community to the world with an Austin-style experience. Together, the Aviation Department, airlines, business partners, and travel community continually work together to ensure passenger safety and a convenient, friendly travel experience.

For the fourth year in a row, Austin citizens who were surveyed selected ABIA as the highest ranked services the City of Austin provides. Austin was ranked 5th best U.S. airport by Travel & Leisure magazine readers. The Airports Council International (ACI) Airport Service Quality (ASQ) customer survey ranked the Austin airport third in the World's Best Airports for Customer Service 2015.

ABIA offers customers 15 airlines and 52 nonstop destinations. New service added in 2015 included low-cost Allegiant adding new routes to Memphis, Albuquerque and Cincinnati. Alaska Airlines added a year-round nonstop flight from Portland to Austin. New service for 2016 announced includes seasonal transatlantic nonstop flights on Condor Airlines from Frankfurt, Germany to Austin and from Guadalajara, Jalisco, Mexico to Austin (Summer 2016) on Volaris Airlines.

For the 5th consecutive year ABIA set a new record for annual traffic. In 2015, over 11.6 million passengers, up 9.8% from 2014, traveled through Austin. This continued growth has spurred the need for further construction and expansion of the airport as follows:

- Nine gate terminal expansion
- Expanded jet parking area
- New parking garage
- Concessions renovation
- Hyatt hotel
- New parking lot with pet boarding service
- Renovation of the South Terminal

To accommodate the increased flights and passengers, ABIA completed 3 major projects in 2015: an expanded taxiway, a consolidated rental car facility, and expansion of the east terminal adding over 56,000 square feet including a new Customs and Border Protection area which more than doubles the capacity to process international arrivals as well as adding a new six-lane TSA checkpoint.

As part of the Terminal East Infill Project, the new Customs Facility opened for international arrivals to ABIA in December 2014; the new Security Checkpoint on the Concourse Level opened in July 2015; the renovated West Matrix with new EDS units began operating in August; New Baggage Claim Carousel #7 opened in September; the new Loading Dock was completed in October. Taxiway Alpha and the other major capital project, the Consolidated Rental Car Facility (CONRAC), handling all rental car operations, also opened in October.

The ABIA terminal building has surpassed its original design capacity of 11 million annual passengers. In 2015, both passengers utilizing the terminal concourse and aircraft parking at the terminal gates exceeded the original design capacity. ABIA is currently in the final design phase for the expansion of the existing Barbara Jordan Terminal. The project will include the addition of nine new gates, new hold room space, concessions space, restroom facilities and concourse circulation space, as well as airport and airline support space. Enabling work and construction of temporary gates for the Terminal Expansion project will begin in June 2016. Terminal Expansion construction will begin in the fall of 2016 and continue through the fall of 2018. The construction of the first of three Apron Expansion phases in support of the Terminal Expansion will began in the spring of 2016 and will continue through the summer of 2019.

A new Parking Garage and Administrative Building is to be constructed on West Lot A to accommodate growing passenger demand for parking close to the terminal and office space for administrative staff. The professional services team is under contract and has kicked off the preliminary design phase of this 5,000 space parking garage.

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The airport supports the Austin area's sustainable vision. As such, honors earned by recently completed construction projects at Austin's airport include: the 2015 Outstanding Construction Award of the Associated General Contractors, Austin Chapter, in the category of Building over $75 million for the new Consolidated Rental Car Facility (CONRAC), which also received the LEED Silver Certification by the U.S. Green Building Council (USGBC). The Terminal East Infill project, new customs facility and security checkpoint entrance, also received the 2015 Outstanding Construction Award of the Associated General Contractors, Austin Chapter.

The Aviation Department continues to seek out creative ways to reduce costs, increase non-airline revenue, and improve the efficiency and effectiveness of its operations. The strategic focus of this sustainable future targets the following four major areas: customer and community value, operational excellence, environmental stewardship, and economic sustainability. ABIA is committed to developing the airport in a way that meets the needs of the present without compromising the needs of future generations.

Financial Highlights

Austin-Bergstrom International Airport operates as a self-sustaining enterprise fund of the City of Austin without receiving any tax revenue. Austin's airport has operated in this fashion since 1982. Funding to finance operating expenses and development is generated by fees and rent paid by airlines, concessions and passengers. In addition, ABIA receives Federal Aviation Administration (FAA) Airport Improvement Program (AIP) grants. In order to comply with federal regulations and to ensure ABIA is eligible to receive AIP funds, all revenue generated by the Airport is retained by the airport for the capital or operating costs of the airport.

FY 2015 was a very successful year at ABIA. The net operating income of $19.1 million was a $7.3 million increase, or 62.3% over FY 2014. Operating revenue increased $11.0 million, or 10.1%, compared to FY 2014. Airline revenue increased by $5.2 million, or 11.6% compared to FY 2014, and non-airline revenue increased $5.5 million, a 9.1% increase compared to FY 2014..

"Quality Service - Austin style" is the business strategy of Austin-Bergstrom International Airport (ABIA). Together, the Aviation Department, airlines, tenants and travel community continually work to ensure passenger safety and a convenient, friendly travel experience.

Jim Smith	David Arthur
Executive Director	Assistant Director & Chief Financial Officer

CITY OF AUSTIN
DEPARTMENT OF AVIATION
AUSTIN-BERGSTROM INTERNATIONAL AIRPORT
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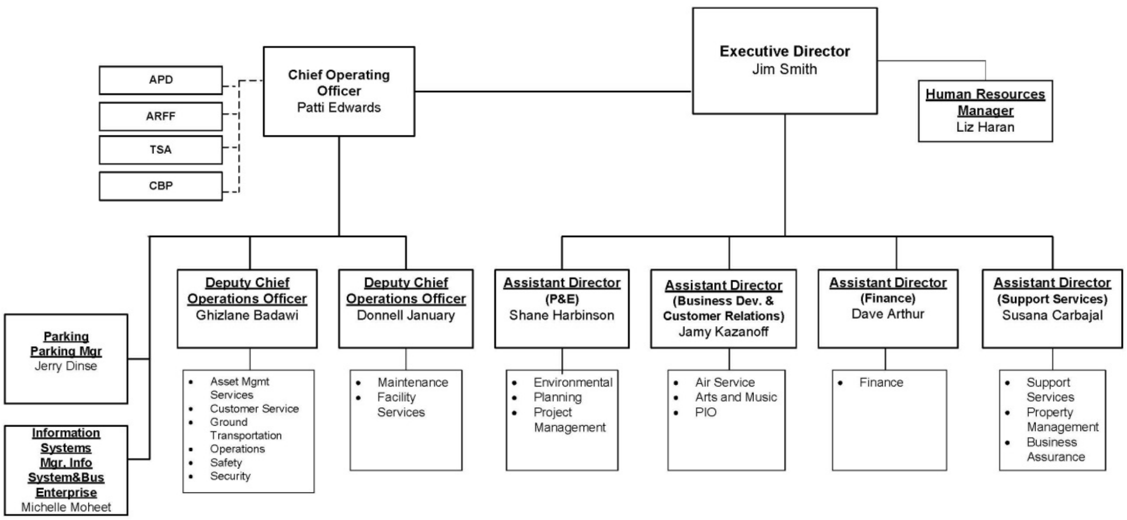
Department of Aviation Organization Chart



Financial Statements (Unaudited)

Austin-Bergstrom International Airport

A Proprietary Fund of the City of Austin

Statement of Net Position

September 30, 2015 and 2014

(In thousands)

(Unaudited)

ASSETS	**2015**	**2014**
Current assets:		
Cash	$ 3	$ 4
Pooled investments and cash	8,351	7,885
Pooled investments and cash - restricted	8,929	24,754
Total pooled investments and cash	17,280	32,639
Investments, at fair value - restricted	22,147	18,583
Accounts receivable, net of allowance	4,421	3,792
Inventories, at cost	1,832	1,733
Prepaid expenses	23	--
Other receivables – restricted	1,324	300
Total current assets	47,030	57,051
Noncurrent assets:		
Pooled investments and cash - restricted	425,112	168,020
Advances to other funds - restricted	51	58
Investments, at fair value - restricted	14,665	--
Depreciable capital assets, net	575,345	501,303
Nondepreciable capital assets	113,626	147,872
Total noncurrent assets	1,128,799	817,253
Total assets	$1,175,829	$874,304
Deferred outflows of resources	$ 47,973	$ 41,782

The accompanying notes are an integral part of the financial statements.

Austin-Bergstrom International Airport

A Proprietary Fund of the City of Austin

Statement of Net Position

September 30, 2015 and 2014

(In thousands)

(Unaudited)

LIABILITIES	**2015**	**2014**
Current liabilities:		
Accounts payable	$ 2,446	$ 1,787
Accounts and retainage payable from restricted assets	7,186	5,334
Accrued payroll	873	671
Accrued compensated absences	1,949	1,756
Due to other funds	153	149
Accrued interest payable from restricted assets	5,997	1,468
Bonds payable	24	29
Bonds payable from restricted assets	18,351	16,681
Customer and escrow deposits payable from restricted assets	866	779
Other liabilities	2,675	1,329
Total current liabilities	40,520	29,983
Noncurrent liabilities, net of current portion:		
Accrued compensated absences	--	60
Advances from other funds	821	972
Bonds payable, net of discount and inclusive of premium	547,828	293,437
Net pension liability	30,903	4,249
Other postemployment benefits payable	19,737	17,209
Derivative instruments - interest rate swaps	34,229	32,514
Other liabilities payable from restricted assets	11	12
Total noncurrent liabilities	633,529	348,453
Total liabilities	$ 674,049	$378,436
Deferred inflows of resources	--	--

The accompanying notes are an integral part of the financial statements.

Austin-Bergstrom International Airport

A Proprietary Fund of the City of Austin

Statement of Net Position

September 30, 2015 and 2014

(In thousands)

(Unaudited)

NET POSITION	**2015**	**2014**
Net investment in capital assets	$ 328,440	$379,749
Restricted for:		
Debt service	50,346	16,205
Capital projects	115,148	72,876
Renewal and replacement	10,000	10,000
Bond reserve	2,441	2,434
Passenger facility charges	61,085	50,317
Operating reserve	12,212	11,334
Unrestricted	(29,919)	(5,265)
Total net position	549,753	537,650
Adjustment to consolidate internal service activities	2,376	2,583
Total net position - Business-type activities	$ 552,129	$540,233

The accompanying notes are an integral part of the financial statements.

Austin-Bergstrom International Airport
A Proprietary Fund of the City of Austin
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the years ended September 30, 2015 and 2014

(In thousands) (Unaudited)

	2015	2014
OPERATING REVENUES		
AIRLINE REVENUE		
Landing Fees	$ 22,720	$ 20,991
Terminal Rental & Other Fees	27,152	23,692
TOTAL AIRLINE REVENUE	49,872	44,683
NON-AIRLINE REVENUE		
Parking and ground transportation	37,429	34,241
Other Concessions	24,733	21,418
Other Rentals and Fees	7,934	8,619
TOTAL NON-AIRLINE REVENUE	70,096	64,277
Total operating revenues	119,969	108,960
OPERATING EXPENSES		
Personnel	34,943	31,160
Communication and utilities	7,133	6,673
Supplies and materials	4,258	9,591
Contractual services	27,797	27,357
Insurance, claims and settlements	526	472
Other	5,525	789
Total operating expenses before depreciation	80,182	76,042
Depreciation and amortization	20,690	21,151
Total operating expenses	100,872	97,193
Operating income (loss)	19,097	11,768
NONOPERATING REVENUES (EXPENSES)		
Interest and other revenues	1,225	221
Interest on revenue bonds and other debt	(18,924)	(11,794)
Interest capitalized during construction	1,284	1,409
Passenger facility charges	22,384	19,806
Other nonoperating revenue (expense)	(686)	(312)
Total nonoperating revenues (expenses)	5,283	9,330
Income (loss) before contributions and transfers	24,380	21,098
Capital contributions	8,405	4,808
Transfers in	--	3
Transfers out	(52)	(793)
Change in net position	32,733	25,115
Total net position - beginning, as restated (See Note 12)	517,020	512,535
Total net position - ending	$ 549,753	$537,650
Reconciliation to government-wide Statement of Activities		
Change in net position	32,733	25,115
Adjustment to consolidate internal service activities	(207)	233
Change in net position - Business-type activities	$ 32,526	$ 25,348

The accompanying notes are an integral part of the financial statements.

Austin-Bergstrom International Airport

A Proprietary Fund of the City of Austin

Statement of Cash Flows

For the years ended September 30, 2015 and 2014

(In thousands)

(Unaudited)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 119,427	$111,508
Cash payments to suppliers for goods and services	(19,586)	(44,917)
Cash payments to other funds	(23,772)	--
Cash payments to employees for services	(31,420)	(28,844)
Net cash provided by operating activities	44,649	37,747
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	--	--
Transfers out	--	(447)
Loans from other funds	--	4
Loan repayments to other funds	(178)	(146)
Loan repayments from other funds	7	6
Collections from other governments	(414)	782
Net cash provided (used) by noncapital financing activities	(585)	199
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the sale of revenue bonds	244,495	--
Principal paid on long-term debt	(16,710)	(15,638)
Proceeds from the sale of capital assets	606	10
Interest paid on revenue bonds and other debt	(14,374)	(11,308)
Passenger facility charges	22,384	19,806
Acquisition and construction of capital assets	(57,402)	(48,815)
Contributions from state and federal governments	7,810	2,008
Contributions in aid of construction	595	2,800
Bond issuance costs	(1,903)	(151)
Bond premiums	29,172	--
Bonds issued for advanced refundings of debt	--	34,757
Cash paid for bond refunding escrow	--	(34,754)
Net cash provided (used) by capital and related financing activities	$ 214,673	$(51,285)

The accompanying notes are an integral part of the financial statements.

Austin-Bergstrom International Airport

A Proprietary Fund of the City of Austin

Statement of Cash Flows

For the years ended September 30, 2015 and 2014

(In thousands)

(Unaudited)

	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	$ (51,184)	$(32,396)
Proceeds from sale and maturities of investment securities	32,961	30,502
Interest on investments	1,218	221
Net cash provided (used) by investing activities	(17,005)	(1,673)
Net increase (decrease) in cash and cash equivalents	241,732	(15,012)
Cash and cash equivalents, October 1	200,663	215,675
Cash and cash equivalents, September 30	442,395	200,663
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	19,097	11,767
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,690	21,151
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(809)	2,059
Increase in allowance for doubtful accounts	180	172
(Increase) decrease in inventory	(99)	(106)
(Increase) decrease in prepaid expenses and other assets	(23)	22
Increase in deferred outflows related to operationsto operations	(3,013)	--
Increase (decrease) in accounts payable	658	124
Increase in accrued payroll and compensated absences	335	96
Increase in net pension liability	3,673	(63)
Increase in other postemployment benefits payable	2,528	2,283
Increase (decrease) in other liabilities	1,345	(75)
Increase in customer deposits	87	317
Total adjustments	25,552	25,980
Net cash provided by operating activities	$ 44,649	$ 37,747

The accompanying notes are an integral part of the financial statements.

Austin-Bergstrom International Airport

A Proprietary Fund of the City of Austin

Statement of Cash Flows

For the years ended September 30, 2015 and 2014

(In thousands)

(Unaudited)

	2015	2014
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Amortization of bond (discounts) premiums	$ 902	$ (34)
Amortization of gain/loss on refundings	(890)	(939)
Loss on disposal of assets	--	(795)
Transfers (to) from other funds	(52)	(343)
Capitalized interest	1,284	1,409

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements
SEPTEMBER 30, 2015 and 2014
(Unaudited)

CITY OF AUSTIN
DEPARTMENT OF AVIATION
AUSTIN-BERGSTROM INTERNATIONAL AIRPORT

Notes to the Financial Statements
SEPTEMBER 30, 2015 and 2014
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor who is elected at large and ten Councilmembers who are elected by geographic district. The Department of Aviation (the Department) is a department within the City and is included as an enterprise fund under the City's comprehensive annual financial report.

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements present only the Aviation Department and have not been audited by an independent certified public accountant.

As a local government, the City is not subject to federal income taxes, under the Internal Revenue Code Section 115. Furthermore, it is not subject to state sales tax.

(a) Description of Reporting Entity

The Department of Aviation operates the Airport System, which consists of Austin-Bergstrom International Airport (the Airport). The 4,240 acre Airport opened in 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. The 700-acre Mueller site is being redeveloped as a mixed-use urban community by the City of Austin and is not part of the Airport System. The Airport is classified by the Federal Aviation Administration (FAA) as a medium hub airport.

A variety of federal, state and local laws, agreements, and regulations govern the operations at the Airport. The FAA has general jurisdiction over flying operations, including personnel, aircraft, ground facilities, and other technical matters, as well as certain environmental matters. Pursuant to the Airport and Airway Improvement Act of 1982 and other statutes, the City is constrained from transferring Airport revenues to its General Fund. This restriction is embodied in the federal grant agreements entered into by the City. Additionally, federal laws govern the reasonableness of fees that may be charged for the use of Airport facilities, Airport noise limits, and impose certain other restrictions on the City and Airport operations.

These financial statements present the Department of Aviation and its component units. Blended component units, although legally separate entities, are in substance, part of the City's operations; therefore, data from these units are combined with data of the Airport. Discrete component units are legally separate entities that are not considered part of the Airport's operations; therefore, data from these units are shown separately from data of the Airport.

Following is the Airport's blended component unit.

Austin-Bergstrom International Airport (ABIA) Development Corporation	ABIA Development Corporation is governed by a board composed of the City Council. The entity has no day-to-day operations. Its existence relates only to the authorization for issuance of industrial revenue bonds or to other similar financing arrangements in accordance with the Texas Development Corporation Act of 1979. To date, none of the bonds issued constitute a liability of ABIA Development Corporation or the City of Austin. In addition, City management has operational responsibilities for this component unit. There is no financial activity to report related to this component unit.

Discretely Presented Component Units – Following is the Airport's discretely presented component unit. See Note 11 for additional information. Financial statements for these entities can be requested from the addresses located below.

Austin-Bergstrom Landhost Enterprises, Inc. (ABLE) 2716 Spirit of Texas Drive Austin, TX 78719	ABLE is a legally separate entity that issues revenue bonds for the purpose of financing the cost of acquiring, improving, and equipping a full-service hotel on airport property. City Council appoints this entity's Board and maintains a contractual ability to remove board members at will. Debt issued by ABLE does not constitute a debt or pledge of the faith and credit of the City.

(b) Basis of Presentation

The accounts of the Airport are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a set of self-balancing accounts that comprise the Airport's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's cost of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) where the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

(c) Basis of Accounting and Financial Statement Presentation.

(i) The Airport prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), which provide that revenues are recorded when earned and expenses are recorded when incurred. Grants are recorded as revenues when all eligibility requirements have been met. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(ii) Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Airport's enterprise fund are charges to customers for use of property and for services provided. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(iii) Under the terms of grant agreements, the Airport funds certain programs with specific cost-reimbursement grants. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program.

(d) Budget

The City Manager is required by the City Charter to present a proposed operating and capital budget that includes annual budgets for the City's enterprise funds to the City Council no later than thirty days before the beginning of the new fiscal year. The final budget shall be adopted no later than the twenty-seventh day of the last month of the preceding fiscal year. During the final adoption process, the City Council passes an appropriation ordinance.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council approves amendments to the budget and transfers of appropriations from one fund and department to another. Unencumbered appropriations for annual budgets lapse at fiscal year end.

(e) Cash and Investments

Cash balances of the Airport, as well as other related entities, are pooled and invested by the City. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that carry a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

The Airport's portion of this pool is displayed on the statement of net position as "Equity in pooled cash and investments held in City Treasury."

Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2015. Investments in local government investment pools are carried at net asset value per share calculated using the amortized cost method which approximates fair value.

(f) Restricted Assets

Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Restricted assets used to repay maturing debt and other current liabilities are classified as current.

The balances of restricted assets for the Airport are as follows (in thousands):

	Airport
Capital projects	$315,731
Customer and escrow deposits	866
Debt service	56,345
Environmental and landfill	--
Federal grants	1,324
Operating reserve account	12,212
Passenger facility charge account	61,085
Plant decommissioning	--
Renewal and replacement account	10,000
Revenue bond reserve	14,665
Strategic reserve	--
	$472,228

(g) Capital Assets and Depreciation

Capital assets include land, buildings and improvements, equipment, vehicles and intangible assets. Capital assets are defined as assets with an initial individual cost of more than $5,000 and an estimated useful life of greater than one year. Capital assets are recorded at cost, except for contributions by third parties, which are recorded at fair value at the date of contribution. The purchase of land included movable structures that had to be removed for the land to be usable for the Airport’s purposes. Intangible assets, which are identifiable, are recorded as capital assets.

Maintenance, repairs, and minor replacements are expended as incurred. Major replacements that extend the useful life of the related assets are capitalized. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives (in years):

	Airport
Buildings and improvements	15-40
Plant and equipment	4-50
Vehicles	3-20
Communication equipment	7
Furniture and fixtures	12
Computers and EDP equipment	3-7

(h) Capitalization of Interest

Interest costs related to the acquisition of buildings and improvements acquired with debt are capitalized. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. Total interest costs incurred during the year ended September 30, 2015 and 2014 amounted to approximately $19.1 million and $10.8 million, respectively. Of these amounts, approximately $10.2 million and $1.3 million were capitalized during 2015 and 2014, respectively.

(i) Bond Issuance Costs, Bond Discounts/Premiums, and Deferred Outflows/Inflows of Resources on Refunding

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(j) Operating Grants and Capital Contributions

Certain expenditures for airport capital improvements, airport safety and security operations, are significantly funded through the AIP of the FAA and TSA, with certain matching funds provided by the Airport. Funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants awarded by TSA to finance Airport safety and security are reported in the statement of revenues, expenses and changes in net position as nonoperating revenues. Grants for capital asset acquisition, facility development and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses.

(k) Passenger Facility Charges

Passenger Facility Charges (PFCs) are recorded as nonoperating revenue in the year they are collected by the air carriers from the sale of air travel tickets and remitted to the Airport in accordance with Airport regulations. At September 30, 2015 and 2014, accumulated PFC funds amounted to $61.1 million and $50.3 million, respectively.

Under the Airport's Revenue Bond Ordinance, PFC revenues are not a part of Gross Revenues but may be set aside during a Fiscal Year for the payment of PFC-eligible debt service in the following Fiscal Year. Amounts of $11.1 million and $11.1 million from accumulated PFC funds were used for payment of PFC eligible bond debt service in fiscal years ended September 30, 2015 and 2014, respectively.

(l) Customer Facility Charges

Rental Car Special Facility Revenue Bonds have been issued by the City to provide for rental car facilities located at the Airport. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from Customer Facility Charges (CFC), which are to be collected by rental car concessionaires from rental car customers. The CFC at the Airport is currently $5.95 per transaction day and may be adjusted from time to time in order to enable the City to generate CFC revenues sufficient to meet the funding requirements set forth in the indenture for these bonds.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements. Revenue from Customer Facility Charges is excluded from operating and non-operating revenue of the Airport and has not been reported in the accompanying financial statements.

(m) Accrued Vacation, Sick Leave, and Compensatory Time

The amounts owed to employees for unpaid vacation, exception vacation, and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the proprietary activities.

(n) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's three pension plans and additions to/deductions from each plan's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability, pension expenses, and long-term deferrals are allocated to funds based on actual contributions by fund during the corresponding measurement period (see Note 5).

(o) Other Postemployment Benefits (OPEB)

The City provides certain health care benefits for its retired employees and their families as more fully described in Note 6. At September 30, 2015, the City's total actuarial accrued liability for these retiree benefits was approximately $1.4 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

(p) Long-Term Debt

The Airport Fund issues Airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. For proprietary funds, the City defers and amortizes gains and losses realized on refundings of debt and reports both the new debt as a liability and the related deferred loss (gain) amount as deferred outflows (or deferred inflows) of resources on the statement of net position.

(q) Net Position

The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation, deferred outflows and inflows associated with the debt, and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At September 30, 2015 and 2014, the Airport's statement of net position reports restricted net position of $251 million and $163 million respectively.

- Unrestricted Net Position – This category represents the net amount that do not meet the criteria for "restricted" or "net investment in capital assets."

(r) Restatement as a Result of The Implementation of a New Accounting Standard

During fiscal year 2015, the City implemented two new accounting standards. GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27",* revised standards of accounting and reporting for pension expenses and liabilities as well as allowing for the deferral of certain pension expense elements. The City also implemented the related GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68"* which clarifies rules related to the accrual of deferred inflows and outflows of resources at the beginning of the period in which GASB Statement No. 68 is effective. As a result of implementing these two statements, net position was restated at October 1, 2014. The City's net pension obligation and net pension assets were eliminated and replaced by a larger net pension liability. Contributions made by the City to the pension systems from January 1 to September 30, 2015 are reported as deferred outflows of resources. The impact of these changes on the beginning balances reported in the financial statements is shown below (in thousands:

September 30, 2014	**Airport**
Net position, as previously reported	$537,650
Adjustments to properly record implementation of GASB Statements No. 68 and 71	(20,630)
Net position, as restated	$517,020

(2) CASH AND INVESTMENTS

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2015 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	**Restricted**
Airport	$8,351	$434,041

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal and liquidity; addresses investment diversification, yield, and maturity; and addresses the quality and capability of investment personnel. The Investment Policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by the City Council. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity of any individual investment, and the maximum average dollar weighted maturity allowed for pooled fund groups. In addition, it includes an "Investment Strategy Statement" that specifically addresses each fund's investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification, and yield. Additionally, the soundness of financial institutions in which the City will deposit funds is addressed.

The City Treasurer submits an investment report each quarter to the investment committee. The report details the investment position of the City and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas state law.

The City is authorized to invest in the following investment instruments if they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
4. Obligations of other states, cities, counties, or other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
5. Bankers' acceptances, so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, are eligible collateral for borrowing from a Federal Reserve Bank, and are accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated;
6. Commercial paper with a stated maturity of 270 days or less from the date of its issuance that is either rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
7. Collateralized repurchase agreements having a defined termination date and described in more detail in the Investment Policy;

Investments (continued)

8. Certificates of deposit issued by depository institutions that have a main office or branch office in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or as further described in the Investment Policy;
9. Share certificates issued by a depository institution that has a main office or branch office in Texas;
10. Money market mutual funds;
11. Local government investment pools (LGIPs); and
12. Securities lending program.

The City participates in four LGIPs: TexPool, TexasDAILY, TexStar, and Lone Star. The State Comptroller oversees TexPool, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over TexasDAILY, an advisory board consisting of participants or their designees maintains oversight responsibility for TexasDAILY. PFM Asset Management LLC manages the daily operations of TexasDAILY under a contract with the advisory board. JPMorgan Investment Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexStar under an agreement with the TexStar board of directors. First Public, LLC serves as the administrator of Lone Star under an agreement with Lone Star's board of directors. The City's position in the pool is the same as the value of the pool shares.

The City invests in TexPool, TexasDAILY, TexStar, and Lone Star to provide its liquidity needs. TexPool, TexasDAILY, TexStar, and Lone Star are LGIPs that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool, TexasDAILY, TexStar, and Lone Star are structured somewhat like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. In addition, interest rates are also adjusted on a daily basis and the funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool, TexasDAILY, TexStar, and Lone Star are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2015, TexPool, TexasDAILY, TexStar, and Lone Star had a weighted average maturity of 40 days, 37 days, 46 days, and 33 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending arrangements during fiscal year 2015.

All City investments are insured, registered, or held by an agent in the City's name; therefore, the City is not exposed to custodial credit risk.

Concentration of Credit Risk

The risk exposures for governmental and business-type activities, individual major funds, nonmajor funds in the aggregate, and fiduciary fund types of the City are not significantly greater than the deposit and investment risk of the primary government. The Investment Policy segregates the portfolios into strategic categories including:

1. Operating funds excluding special project funds,
2. Debt service funds,
3. Debt service reserve funds, and
4. Special project funds or special purpose funds.

The City's credit risk is controlled by complying with the Investment Policy, which includes qualification of the brokers and financial institutions with whom the City will transact, sufficient collateralization, portfolio diversification, and maturity limitations.

Interest Rate Risk

As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements. Three years is the maximum period before maturity.

As of September 30, 2015, the City's Airport funds had the following investments (in thousands):

Fund	Investment Type	Fair Value	Weighted Average Maturity (in days)
Debt Service Fund	Local Gov't Investment Pools	$22,070	1
Debt Service Reserve Fund	Local Gov't Investment Pools	$14,665	1
Airport Construction	Local Gov't Investment Pools	$77	1

(3) CAPITAL ASSETS AND INFRASTRUCTURE

Airport Fund Capital Asset activity for the year ended September 30, 2015, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Building and improvements	$ 735,106	90,011	--	825,117
Plant and equipment	25,926	2,338	(52)	28,212
Vehicles	9,926	2,436	(148)	12,214
Total depreciable capital assets	770,958	94,785	(200)	865,543
Less accumulated depreciation for				
Building and improvements	(249,863)	(18,107)	--	(267,970)
Plant and equipment	(14,238)	(1,420)	--	(15,658)
Vehicles	(5,554)	(1,163)	147	(6,570)
Total accumulated depreciation		(20,690) (1)	147	(290,198)
Depreciable capital assets, net	501,303	74,095	(53)	575,345
Nondepreciable capital assets				
Land and improvements	95,738	643	--	96,381
Arts and treasures	983	2,185	--	3,168
Construction in progress		62,287	(99,361)	14,077
Total nondepreciable assets	147,872	65,115	(99,361)	113,626
Total capital assets	$ 649,175	139,210	(99,414)	688,971

(1) Components of accumulated depreciation/amortization increases:

Current year depreciation	$ 20,690

Notes to the Financial Statements
SEPTEMBER 30, 2015 and 2014
(Unaudited)

(4) DEBT

(a) Long-term Liabilities

Description	October 1, 2014	Increases	Decreases	September 30, 2015	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	$134	--	(29)	105	24
General obligation bonds and other tax supported debt total	134	--	(29)	105	24
Revenue bonds, net	310,013	273,667	(17,582)	566,098	18,351
Debt service requirements total	310,147	273,667	(17,611)	566,203	18,375
Other long-term obligations					
Accrued compensated absences	1,816	193	(60)	1,949	1,949
Net pension liability (1)	27,231	6,934	(3,262)	30,903	--
Other postemployment benefits	17,209	2,528	--	19,737	--
Other liabilities	2,120	1,433	(1)	3,552	3,541
Airport activities total	358,523	284,755	(20,934)	622,344	23,865

(1) Beginning balances have been restated. See Note 12.

Airport -- Revenue Bonds - The City's Airport Fund issues Airport System Revenue Bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2015, the total Airport System obligation for prior lien bonds is $538,259,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $329,418,034 at September 30, 2015. Revenue bonds authorized and unissued amount to $735,795,000.

Airport System Revenue Debt -- Revenue Bond Issue - In January 2015, the City issued $244,495,000 of Airport System Revenue Bonds, Series 2014. The net proceeds of $216,378,075 (after issue costs, discounts, and premiums) from the issuance are being used for designing and constructing improvements to Austin-Bergstrom International Airport. Interest is payable May 15 and November 15 of each year from 2015 to 2044, commencing on May 15, 2015. Principal payments are due November 15 of each year from 2026 to 2044. Total interest requirements for this obligation, at a rate of 5%, are $272,662,118.

The bond rating at September 30, 2015, for the revenue bonds is A (Standard & Poor's) and A1 (Moody's Investors Service, Inc.).

(4) DEBT

(a) Long-term Liabilities (continued)

The following table summarizes all Airport System original and refunding revenue bonds outstanding at September 30, 2015 (in thousands):

Series	Fiscal Year	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2005 Refunding	2008 (1)	$ 281,300	198,750	49,521 (2)	0.03 - 0.14%	11/15/2015-2025
2013 Revenue	2013	60,000	60,000	10,538 (3)	2.25%	11/15/2015-2028 (4)
2013A Refunding	2014	35,620	35,014	1,111 (3)	1.56%	11/15/2015-2018
2014 Revenue	2015	244,495	244,495	268,248 (3)	5.00%	11/15/2026-2044
			$ 538,259			

(1) Series was remarketed in 2008.
(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate of 4.05% in effect at the end of the fiscal year.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Series matures on May 15 of the final year.

The Series 2005 refunding bonds that were remarketed in 2008 are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of $198,750,000. The associated letter of credit agreement has the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2005-1	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	$ 49,700	10/15/2018
2005-2	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	49,650	10/15/2018
2005-3	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	49,700	10/15/2018
2005-4	Sumitomo Mitsui Banking Corporation	0.62%	Morgan Stanley	0.10%	49,700	10/15/2018
					$ 198,750	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds or if the agreement expires with no new agreement in place, the bonds will be purchased by the respective liquidity provider and become bank bonds with principal to be paid in annual installments over the remaining life of the bond series beginning on the first business day of the month six months following the triggering repayment event. Thus, under any circumstance, no principal payments will be due within a year of September 30, 2015. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

(4) DEBT

(a) Long-term Liabilities (continued)

Airport Revenue Debt -- Pledged Revenues - The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2015 (in thousands):

Gross Revenue (1)	Other Available Funds (2)	Operating Expense (3)(4)	Net Revenue and Other Available Funds	Debt Service Requirement (5)	Revenue Bond Coverage
$ 120,780	3,551	76,995	47,336	14,205	3.33

(1) Gross revenue includes revenues from operations and interest income.
(2) Pursuant to the bond ordinance, in addition to gross revenue, the Airport is authorized to use "other available funds" in the calculation of revenue bond coverage not to exceed 25% of the debt service requirements.
(3) Excludes depreciation.
(4) Excludes other postemployment benefits and net pension liability accruals.
(5) Excludes debt service amounts paid with passenger facility charge revenues and restricted bond proceeds applied to current interest payments.

Notes to the Financial Statements
SEPTEMBER 30, 2015 and 2014
(Unaudited)

(4) DEBT (continued)

b) Debt Service Requirements (in thousands):

Fiscal Year Ended September 30	General Obligation Bonds		Revenue Bonds (1)	
	Principal	Interest	Principal	Interest
2016	$ 24	3	18,351	21,616
2017	24	2	21,940	21,211
2018	21	1	23,744	20,757
2019	20	1	24,249	19,897
2020	10	--	26,135	18,933
2021-2025	3	--	134,060	79,919
2026-2030	--	--	79,795	58,863
2031-2035	--	--	53,775	46,037
2036-2040	--	--	68,620	30,809
2041-2045	--	--	87,590	11,376
	102	7	538,259	329,418
Less: Unamortized bond discounts	--	--	(370)	--
Add: Unamortized bond premiums	3	--	28,209	--
Net debt service requirements	105	7	566,098	329,418

Fiscal Year Ended September 30	Total Airport Debt Service Requirements		
	Principal	Interest	Total
2016	18,375	21,619	39,994
2017	21,964	21,213	43,177
2018	23,765	20,758	44,523
2019	24,269	19,898	44,167
2020	26,145	18,933	45,078
2021-2025	134,063	79,919	213,982
2026-2030	79,795	58,863	138,658
2031-2035	53,775	46,037	99,812
2036-2040	68,620	30,809	99,429
2041-2045	87,590	11,376	98,966
	538,361	329,425	867,786
Less: Unamortized bond discounts	(370)	--	(370)
Add: Unamortized bond premiums	28,212	--	28,212
Net debt service requirements	$ 566,203	329,425	895,628

(1) Portions of these bonds are variable rate bonds with rates ranging from 0.03% to 0.14%.

(5) RETIREMENT PLANS

(a) General Information

Plan Description. The City participates in funding three contributory, defined benefit retirement plans: the City of Austin Employees' Retirement and Pension Fund (City Employees), the City of Austin Police Officers' Retirement and Pension Fund (Police Officers), and the Fire Fighters' Relief and Retirement Fund of Austin, Texas (Fire Fighters). An Independent Board of Trustees administers each plan. These plans are City-wide single employer funded plans each with a fiscal year end of December 31.

All three plans were created by state law and can be found in Vernon's Texas Civil Statutes as follows:

City Employees' Fund	Article 6243n
Police Officers' Fund	Article 6243n-1
Fire Fighters' Fund	Article 6243e.1

State law governs benefit and contribution provisions. Amendments may be made by the Legislature of the State of Texas.

Plan Financial Statements. The most recently available financial statements of the pension funds are for the year ended December 31, 2014. Stand-alone financial reports that include financial statements and supplementary information for each plan are publicly available at the locations and internet addresses shown below.

Plan	Address	Telephone
City of Austin Employees' Retirement and Pension Fund	418 E. Highland Mall Blvd. Austin, Texas 78752-3720 **www.coaers.org**	(512)458-2551
City of Austin Police Officers' Retirement and Pension Fund	2520 S. IH 35, Ste. 100 Austin, Texas 78704 **www.ausprs.org**	(512)416-7672
Fire Fighters' Relief and Retirement Fund of Austin, Texas	4101 Parkstone Heights Dr., Ste. 270 Austin, Texas 78746 **www.afrs.org**	(512)454-9567

Classes of Employees Covered. The three pension plans cover substantially all full-time employees. The City Employees' fund covers all regular, full-time employees working 30 hours or more except for civil service police officers and fire fighters. Membership in this fund is comprised of two tiers. Group A includes all employees hired before January 1, 2012. Group B includes all employees hired on or after this date. The Police Officers' fund covers all commissioned law enforcement officers and cadets upon enrollment in the Austin Police Academy. The Fire Fighters' fund covers all commissioned civil service and Texas state-certified fire fighters with at least six months of service employed by the Austin Fire Department.

Benefits Provided. Each plan provides service retirement, death, and disability benefits as shown in the following chart. For the City Employees' fund, vesting occurs after 5 years of creditable service. For the other two systems, vesting occurs after 10 years of creditable service. For all three systems, creditable service includes employment at the City plus purchases of certain types of service where applicable. Withdrawals from the systems include actual contributions plus interest at varying rates depending on the system. This applies to both non-vested employees who leave the City as well as vested employees who leave the City and wish to withdraw their contributions. In addition, each plan offers various Deferred Retirement Option Programs (DROP). These are not included in the discussion of benefits provided.

(5) RETIREMENT PLANS (continued)

	City Employees	Police Officers	Fire Fighters
Eligibility	Group A members qualify for retirement benefits at age 62; age 55 with 20 years creditable service; or any age with 23 years creditable service. No reduced benefits are available. Group B members qualify for normal retirement benefits at age 65 with 5 years creditable service or at age 62 with 30 years creditable service. Reduced benefits are available at age 55 with 10 years of creditable service.	Members are eligible for retirement benefits at any age with 23 years creditable service (excluding pre-membership military service), age 55 and 20 years creditable service (excluding pre-membership military service), or age 62 and any number of creditable service years.	Members are eligible for normal retirement benefits upon the earlier of age 50 with 10 years of service or 25 years of service regardless of age. Members are eligible for early retirement at 45 with 10 years of service or with 20 years of service regardless of age.
Calculation	Average of 36 highest months of base pay multiplied by years and months of creditable service multiplied by 3.0% for Group A and 2.5% for Group B.	Average of 36 highest months of base salary plus longevity pay multiplied by years and months of service multiplied by 3.2.	Average of 36 highest months of base salary plus longevity pay multiplied by years of service multiplied by 3.3% with a $2,000 monthly minimum.
Death Benefits	Retiree or active member eligible for retirement, $10,000 lump sum and continuation of benefits to beneficiary if this option was selected. If not eligible for retirement, refund of accumulated deposits plus death benefit from COAERS equal to those deposits excluding purchases of time.	For retirees and members eligible for retirement, $10,000 lump sum and the member's accrued benefit as of the date of death based on annuity selected. Non-vested members receive the greater of $10,000 or twice the amount of the member's accumulated contributions.	Surviving spouse receives 75% of retiree benefits based the greater of 20 years or years of service at time of death. If surviving spouse exists, each dependent receives 15% of the payment paid to the surviving spouse. If no surviving spouse exists, dependents split equally the amount that would have been paid to surviving spouse.
Disability Benefits	After approved for disability benefits, active members may choose from several different disability retirement options. Must have 5 years of service if disability is not job related.	After approved for disability benefits, if disability is the result of employment duties, benefit is based on the greater of 20 years or normal retirement calculation. Must have 10 years of service if disability is not job related.	For the first 30 months, eligible for retiree benefits based on the greater of service at time of disability or 20 years. After 30 months, continuance of annuity may be reevaluated.
Cost of Living Adjustments (COLA)	The plan does not require COLAs. Such increases must be deemed sustainable by the actuary and approved by the City Council and Board of Trustees of the fund. The most recent COLA was put into effect in 2002.	The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect in 2007.	The plan does not require COLAs. Such increases must be approved by the Board of Trustees and the actuary of the fund. The most recent COLA was put into effect for 2015.

(5) RETIREMENT PLANS (continued)

Employees Covered by Benefit Terms: Membership in the plans, is as follows:

	City Employees	Police Officers	Fire Fighters
As of December 31:	**2014**	**2013**	**2013**
Inactive employees or beneficiaries currently receiving benefits	5,396	683	640
Inactive employees entitled to but not yet receiving benefits	2,303	26	5
Active employees	9,028	1,732	1,074
Total	16,727	2,441	1,719

Contributions. For all three systems, minimum contributions are determined by the enabling legislation cited above. In certain cases the City may contribute at a level greater than that stated in the law. While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted.

	City Employees	Police Officers	Fire Fighters
Employee contribution (percent of earnings)	8.00%	13.00%	17.70% (1)
City contribution (percent of earnings)	18.00% (2)	21.63% (3)	22.05%
City contributions year ended September 30, 2015 (in thousands)	$97,655	32,942	18,327

(1) A rate of 18.20% was effective October 1, 2015.
(2) The City contributes two-thirds of the cost of prior service benefit payments. A rate of 18% was effective October 1, 2012.
(3) A rate of 21.313% was effective October 1, 2015.

(5) RETIREMENT PLANS (continued)

(b) Net Pension Liability

The City's net pension liability was measured as of December 31, 2014 for all three systems. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date for the City Employees' fund. For the other two systems, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013 using the final 2014 assumptions and then was rolled forward to the plan's year ending December 31, 2014.

Actuarial Assumptions. Actuarial assumptions used in the most recent actuarial valuations include:

	City Employees	Police Officers	Fire Fighters
Inflation Rate	3.25%	3.25%	3.50%
Projected Annual Salary Increases	4.5% to 6.0%	Services based	Services based
Investment Rate of Return	7.75%	7.90%	7.70%
Ad Hoc Postemployment Benefit Changes including COLAs	None	None	None
Dates of Experience Studies	2007 - 2011	2012 - 2013	2004 - 2014
Source for Mortality Assumptions	RP-2000 Mortality Table with White Collar adjustment and multipliers of 110% for males and 120% for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.	RP-2000 Combined Healthy without projection - Sex Distinct.	RP2000 (Fully Generational using Scale AA) set back two years for males and females - Sex Distinct.

Development of Long-Term Rate of Return on Investments. Each pension plan utilizes different asset allocations and assumed rates of return in developing the long-term rate of return on investments. However all three use the same methodology as follows:

The long-term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(5) RETIREMENT PLANS (continued)

The following provides asset allocations and long-term expected real rate of return for each asset class for the three funds.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
City Employees:		
International Equity	31.55%	8.03%
US Equity	31.01%	5.05%
Fixed Income	24.50%	0.80%
Alternative Investments	7.50%	5.18% to 8.65%
Real Estate	5.44%	5.61%
Total	100.00%	
Police Officers:		
Domestic Equity	43.50%	7.50%
International Equity	21.00%	8.50%
Real Estate	20.00%	4.50%
Domestic Bonds	9.00%	2.50%
International Bonds	6.50%	3.50%
Total	100.00%	
Fire Fighters:		
Public Domestic Equity	22.50%	5.00%
Public Foreign Equity	22.50%	5.90%
Private Equity Fund of Funds	15.00%	7.00%
Investment Grade Bonds	16.00%	0.70%
Hedge Funds	10.00%	2.90%
Core Real Estate	5.00%	3.70%
Value Real Estate	5.00%	5.20%
Treasury Inflation Protected Securities	4.00%	1.20%
Total	100.00%	

Discount Rate. The following provides information on the discount rate used to measure the City's total pension liability. Based on the assumptions presented below, the fiduciary net position for all three pension funds was projected to be available to make all projected future benefit payments of current active and inactive 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.

(5) RETIREMENT PLANS (continued)

	City Employees	Police Officers	Fire Fighters
Single Discount Rate	7.75%	7.90%	7.70%
Change Since Last Measurement Date	None	None	None
Long-term Expected Rate of Return on Pension Plan	7.75%	7.90% (1)	7.70% (2)
Cash Flow Assumptions	Plan member contributions will be made at the current rate. City contributions will be made at the current rate for 24 years and then will decrease to 8%.	Both plan member contributions and City contributions will be made at current contribution rates.	Both plan member contributions and City contributions will be made at current contribution rates.

(1) The investment return assumption used for the prior year's actuarial valuation was 8.00% for Police Officers.
(2) The investment return assumption used for the prior year's actuarial valuation was 7.75% for Fire Fighters.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of each of the pension funds of the City calculated using the long-term expected rate of return on pension plan investments, as well as what the net pension liability (in thousands) would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

	1% Decrease		Current Discount		1% Increase	
	Rate	Net Pension Liability	Rate	Net Pension Liability	Rate	Net Pension Liability (Asset)
City Employees	6.75%	$ 1,250,122	**7.75%**	**$ 884,256**	8.75%	$ 576,554
Police Officers	6.90%	446,103	**7.90%**	**333,604**	8.90%	238,082
Fire Fighters	6.70%	179,082	**7.70%**	**72,035**	8.70%	(17,038)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of each of the pension systems. These reports are available as explained in General Information (part a) of this footnote.

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(5) RETIREMENT PLANS (continued)

Schedule of Changes in Net Pension Liability. Changes in net pension liability for all three funds and the City for the measurement period ended December 31, 2014 are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
Total Pension Liability at December 31, 2013 (a)	$ 2,909,918	909,000	806,282	4,625,200
Changes for the year:				
Service Cost	89,235	30,254	25,319	144,808
Interest	222,710	72,443	62,977	358,130
Benefit Changes	--	(11,015)	--	(11,015)
Differences between Expected and Actual Experience	33,911	--	--	33,911
Assumption Changes	--	14,137	4,883	19,020
Contribution Buy Back	--	2,207	--	2,207
Benefit Payments including refunds	(161,718)	(45,403)	(37,993)	(245,114)
Net Change in Total Total Pension Liability	184,138	62,623	55,186	301,947
Total Pension Liability at December 31, 2014 (b)	$ 3,094,056	971,623	861,468	4,927,147
Total Plan Fiduciary Net Position at December 31, 2013 (c)	$ 2,130,624	595,110	752,622	3,478,356
Changes for the year:				
Employer Contributions	93,331	32,400	18,670	144,401
Employee Contributions	50,490	19,458	14,660	84,608
Contributions Buy Back	--	2,207	--	2,207
Pension Plan Net Investment Income	99,704	35,574	42,005	177,283
Benefits Payments and Refunds	(161,718)	(45,403)	(37,993)	(245,114)
Pension Plan Administrative Expense	(2,631)	(1,327)	(531)	(4,489)
Net Change in Total Plan Fiduciary Net Position	79,176	42,909	36,811	158,896
Total Plan Fiduciary Net Position at December 31, 2014 (d)	$ 2,209,800	638,019	789,433	3,637,252
Net Pension Liability at December 31, 2013 (a-c)	$ 779,294	313,890	53,660	1,146,844
Net Pension Liability at December 31, 2014 (b-d)	$ 884,256	333,604	72,035	1,289,895

(5) RETIREMENT PLANS (continued)

The City Employees' fund had no significant changes of assumptions or other inputs, no changes of benefit terms, and no significant factors that affected measurement of the total pension liability during the measurement period.

The Police Officers' fund had numerous changes in benefits and assumptions that affected the measurement of the total pension liability for the measurement period. In February 2015, the pension board approved the following benefit changes:

- Effective February 18, 2015, eliminate the opportunity to purchase permissive service in conjunction with utilizing the Forward or Retro-DROP,
- Effective April 1, 2015, permissive service credit factors shall be determined based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality,
- Effective April 1, 2015, eliminate Retro-DROP for members with less than 23 years Police Officers' fund service,
- Effective August 1, 2015, the Forward DROP interest rate will be set annually in the same manner as the PROP interest rate, except for those with 23 years of Police Officers' fund service as of July 31, 2015 who will not be affected, and
- Requiring that new hires beginning February 1, 2016 pay the full actuarial costs for purchase of military service.

Changes to assumptions included:

- Decreasing the investment return assumption from 8.00% to 7.90% per year compounded annually, net of expenses,
- Lowering the expected increase in salary due to general wage increased from 3.75% to 3.5%,
- Decreasing the annual assumed interest rate credited to Post Retirement Option Plan (PROP), accounts from 4.00% to 2.25%,
- Reducing the disability rates by one-half,
- Increasing by 25% the retirement rates for members entering the system prior to age 33, and
- Slight modifications to retirement rates due to anticipated future PROP usage.

The Fire Fighters' fund changed a number of assumptions that affected the measurement of the total pension liability for the measurement period.

- The investment return was decreased from 7.75% to 7.70% per year compounded annually, net of expenses.
- The general wage inflation rate was decreased from 3.5% to 3.0%.
- Amendments were made to the service-based table attributable to merit and longevity salary increases, the retirement rates, the Retro-DROP election assumptions, the withdrawal rates, and the assumed spousal age difference assumptions.

This fund had no benefit changes or other significant factors that affected measurement of the total pension liability during the measurement period.

(c) Pension Expense

Total pension expense recognized by the City for the fiscal year ended September 30, 2015, was comprised of the following (in thousands):

	Pension Expense
City Employees	$ 117,263
Police Officers	30,009
Fire Fighters	20,105
Total	$ 167,377

(5) RETIREMENT PLANS (continued)

(d) Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015 the City reported deferred outflows of resources related to pensions from the following sources (in thousands):

		City Employees	Police Officers	Fire Fighters	Total
Deferred Outflows of Resources					
Contributions to the plans subsequent to the measurement date	$	71,342	24,055	14,069	109,466
Differences between expected and actual experience		27,085	--	--	27,085
Changes in assumptions		--	12,724	4,341	17,065
Net difference between projected and actual earnings on pension plan investments		53,886	9,383	12,597	75,866
Total Deferred Outflows of Resources	$	152,313	46,162	31,007	229,482

The portion of deferred outflows of resources that will be recognized in pension expense is as follows (in thousands):

Fiscal Year Ended September 30		City Employees	Police Officers	Fire Fighters	Total
2016	$	20,298	3,759	3,692	27,749
2017		20,297	3,760	3,692	27,749
2018		20,298	3,759	3,692	27,749
2019		20,078	3,760	3,692	27,530
2020		--	1,414	543	1,957
Thereafter		--	5,655	1,627	7,282
Total	$	80,971	22,107	16,938	120,016

In addition, in fiscal year 2016 the following amounts of deferred outflows representing deferred contributions will be recognized as a reduction to the net pension liability (in thousands):

City Employees	$	71,342
Police Officers		24,055
Fire Fighters		14,069
Total	$	109,466

(6) OTHER POSTEMPLOYMENT BENEFITS

(a) Description

In addition to the contributions made to the three pension systems, the City provides certain other postemployment benefits to its retirees. Other postemployment benefits include access to medical, dental, and vision insurance for the retiree and the retiree's family and $1,000 of life insurance on the retiree only. All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other postemployment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate. The City's other postemployment benefits plan is a single employer plan.

The City is under no obligation to pay any portion of the cost of other postemployment benefits for retirees or their dependents. Allocation of City funds to pay other postemployment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis.

The City recognizes the cost of providing these benefits to active employees as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium.

The estimated pay-as-you-go cost of providing medical and life benefits was $39.5 million for 4,431 retirees in 2015 and $33.3 million for 4,189 retirees in 2014.

(b) Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation

The annual OPEB cost associated with the City's retiree benefits for the fiscal year ended September 30, 2015 is as follows (in thousands):

	OPEB
Annual required contribution	$ 136,706
Interest on net OPEB obligation	29,077
Adjustment to annual required contribution	(38,867)
Annual OPEB cost	126,916
Contributions made	(39,482)
Change in net OPEB obligation	87,434
Beginning net OPEB obligation	690,265
Net OPEB obligation	$ 777,699

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and the two preceding years are as follows (in thousands):

Year Ended September 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$ 132,595	20%	598,687
2014	124,861	27%	690,265
2015	126,916	31%	777,699

(6) OTHER POSTEMPLOYMENT BENEFITS (continued)

(c) Schedule of Funding Progress at September 30, 2015 (in thousands):

Actuarial Value of Assets	Actuarial Accrued Liability	UAAL (1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
$ --	1,449,238	1,449,238	0%	775,527	186.9%

(1) UAAL - Unfunded Actuarial Accrued Liability

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

(d) Actuarial Methods and Assumptions

Projections of benefits are based on the plan in place at the time of the valuation and include the type of benefits provided at the valuation date and the cost sharing pattern between the employer and plan members at that time. The actuarial calculations of the OPEB plan reflect a long-term perspective and utilize actuarial methods and assumptions that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

(e) Funding Policy

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

	OPEB
Actuarial Valuation Date	October 1, 2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage Open
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Investment Rate of Return	4.21%
Inflation Rate	N/A
Salary Increase	None
Payroll Increase	None
Health Care Cost Trend Rate	7.0% in 2015, decreasing 0.5% per year for four years to an ultimate trend of 5.0% in 2019

(7) DERIVATIVE INSTRUMENTS

The City has derivatives in two hedging programs: Energy Risk Management Program and Variable Rate Debt Management Program. The Airport has Variable Rate Debt.

In accordance with GAAP, the City is required to report the fair value of all derivative instruments on the statement of net position. All derivatives must be categorized into two basis types – (1) hedging derivative instruments and (2) investment derivative instruments. Hedging derivative instruments significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of an associated hedgeable item. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net position, and changes in fair value of investment derivative instruments are recognized as gains or losses on the statement of activities.

(a) Variable Rate Debt Management Program

Hedging Derivative Instruments

The intention of each of the City's swaps is to provide a cash flow hedge for its variable interest rate bonds by providing synthetic fixed rate bonds. As a means to lower its borrowing costs when compared against fixed rate bonds at the time of issuance, the City executed pay-fixed, receive-variable swaps in connection with its issuance of variable rate bonds.

The mark-to-market or fair value for each swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London Interbank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

On September 30, 2015, the Airport had the following outstanding interest rate swap hedging derivative instruments (in thousands):

Item	Related Variable Rate Bonds	Terms	Effective Date	Maturity Date	Notional Amount	Fair Value
Business-Type Activities - Hedging derivatives:						
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025	$198,750	$(34,229)

All swaps are pay-fixed interest rate swaps. All were entered into with the objective of hedging changes in the cash flows on the related variable rate debt.

(7) DERIVATIVE INSTRUMENTS

(a) Variable Rate Debt Management Program (continued)

The fair value of the City's interest rate swap hedging derivative instruments is reported as derivative instruments in liabilities with an offsetting adjustment to deferred outflow of resources. The table below provides for the fair value and changes in fair value of the Airport's interest rate swap agreements as of September 30, 2015 (in thousands):

	Outstanding			Change in fair value	
Item	Notional Amount	Fair Value Amount	Classification	Deferred Outflows	Deferred Inflows
AIR1	$198,750	$(34,229)	Non-current liability	$ (1,715)	--

Due to the continued low interest rate levels during fiscal year 2015, the Airport's interest rate swap hedging derivative instrument had negative fair values as of September 30, 2015. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received.

Risks

Credit risk. As of September 30, 2015, the Airport was not exposed to credit risk its outstanding swap agreements because the swap had a negative fair value. However, should interest rates change and the fair value of a swap become positive, the Airport would be exposed to credit risk in the amount of the swap's fair value. The Airport will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The counterparty credit ratings for the Airport's interest rate swap hedging derivative instruments at September 30, 2015, are included in the table below:

			Counterparty Ratings		
Item	Related Variable Rate Bonds	Counterparty	Moody's Investors Service, Inc	Standard & Poor's	Fitch, Inc
Business-Type Activities:					
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Morgan Stanley Capital Services, Inc.	A3	A-	A

Swap agreements for the Airport's swaps contain collateral agreements with the counterparties. These swap agreements require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreements. For Swap AIR1, the City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P. For Swap HOT1, the credit support provider of MKFP is Deutsche Bank AG, New York Branch (DBAG). This swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

(7) DERIVATIVE INSTRUMENTS

(a) Variable Rate Debt Management Program (continued)

Swap payments and associated debt. The net cash flow for the Airport's interest rate swap hedging derivative instrument for the year ended September 30, 2015, is included in the table below (in thousands):

Item	Related Variable Rate Bonds	Counterparty Swap Interest Pay	Receive	Net	Interest to Bondholders	Net Interest Payments
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, 2005	$(8,161)	247	(7,914)	(142)	(8,056)

Basis and interest rate risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City does not bear basis risk on Swap WW2. At September 30, 2015, the City bears basis risk on the two remaining swaps. These swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bonds. The City is exposed to basis risk should the floating rate that it receives on a swap drop below the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is the risk of a permanent mismatch occurring between the interest rate paid on the City's underlying variable rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds. For example, a grandfathering of the elimination of federal tax-exemption on existing tax-exempt bonds, or a tax cut, would result in the yields required by investors on the City's bonds coming close to or being equal to taxable yields. This would result in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR on AIR1, and 67% of LIBOR on Swap HOT1 and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance on the Swap AIR1 to further reduce the possibility of termination risk.

Rollover risk. The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument. The City is currently not exposed to rollover risk on its hedging derivative instruments.

Investment Derivative Instruments

At September 30, 2015, the City did not have any investment derivative instruments related to interest rate swaps.

(8) LEASE AGREEMENTS

Airport

The City has entered into certain lease agreements as the lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In the fiscal year 2015, the Airport fund revenues included minimum concession guarantees of $19,348,657.

The following is a schedule by year of minimum future rentals on noncancelable operating leases with remaining terms of up to ten years for the Airport Fund as of September 30, 2015 (in thousands):

Fiscal Year Ended September 30		Airport Lease Receipts
2016	$	5,110
2017		2,709
2018		115
2019		5
2020		5
2021		1
Totals	$	7,945

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period January 1, 2010 through December 31, 2015. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index (CPI) – Urban Wage Earners and Clerical workers, U.S. Owner Average, published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

(9) COMMITMENTS AND CONTINGENCIES

(a) Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2015 Capital Budget has substantial contractual commitments relating to its capital improvement plan. Remaining commitments represent current unspent budget and future costs required to complete projects. The Airport has $283,608,000 remaining commitment for its Capital Improvement Plan.

(b) Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

Fund Name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO, HMO, or CDHP with HSA for health coverage. Approximately 26% of city employees and 32% of retirees use the HMO option; approximately 72% of city employees and 68% of retirees use the PPO option; and approximately 2% of city employees and 0.25% of retirees use the CDHP with HSA option. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability, and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on the number of full-time equivalent (FTE) employees per fund.

The City purchases stop-loss insurance for the City's PPO and HMO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $5 million. In fiscal year 2015, fourteen claims exceeded the stop-loss limit of $500,000; during fiscal year 2014, sixteen claims exceeded the stop-loss limit of $500,000, and during fiscal year 2013, nine claims exceeded the stop-loss limit of $500,000. City coverage is unlimited for lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the Airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage for the last three years. The City also purchases insurance coverage through a program that provides workers' compensation, employer's liability, and third party liability coverage to contractors working on designated capital improvement project sites.

(b) Risk-Related Contingencies (continued)

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from $47.5 to $51.1 million. In accordance with GAAP, $47.5 million is recognized as claims payable in the financial statements with $22.6 million recognized as a current liability and $24.9 million recognized as long term. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

		Employee Benefits		Liability Reserve		Workers' Compensation	
		2015	2014	2015	2014	2015	2014
Liability balances, beginning of year	$	11,699	10,920	10,581	10,123	21,526	18,839
Claims and changes in estimates		15,136	10,832	4,640	5,195	7,124	5,950
Claim payments		(13,549)	(10,053)	(5,884)	(4,737)	(3,809)	(3,263)
Liability balances, end of year	$	13,286	11,699	9,337	10,581	24,841	21,526

The Liability Reserve Fund claims liability balance at fiscal year-end includes liabilities of $3.2 million discounted at 3.91% in 2015 and $3.6 million discounted at 4.45% in 2014.

(10) CONDUIT DEBT

Revenue bonds have been issued by various related entities to provide for facilities located at the Airport. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. More specifically, Rental Car Special Facility Revenue Bonds have been issued by the City to provide for rental car facilities located at the Airport. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from Customer Facility Charges, which are to be collected by rental car concessionaires from rental car customers. As of September 30, 2015, $143.8 million in revenue and revenue refunding bonds were outstanding with an original issue value of $143.8 million.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

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(11) DISCRETELY PRESENTED COMPONENT UNIT

Condensed financial information is included below for the discretely presented component unit of the City that is related to the Airport. The most recently available financial statements for Austin Bergstrom Landhost Enterprises, Inc. are for the year ended December 31, 2014 (in thousands).

Condensed Combining Statement of Net Position

	Austin Bergstrom Landhost Enterprises, Inc.
ASSETS	
Current assets	$ 1,052
Capital assets	24,601
Noncurrent assets	1,736
Total assets	27,389
Deferred outflows of resources	--
LIABILITIES	
Current Liabilities	7,679
Bonds payable, net of discount and inclusive of premium	56,632
Noncurrent liabilities	32
Total liabilities	64,343
NET POSITION	
Net investment in capital assets	(32,031)
Restricted	--
Unrestricted (deficit)	(4,923)
Total net position	$ (36,954)

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

	Austin Bergstrom Landhost Enterprises, Inc.
OPERATING REVENUES	
User fees and rentals	$ 16,416
Contributions	--
Total operating revenues	16,416
OPERATING EXPENSES	
Operating expenses before depreciation	12,667
Depreciation and amortization	1,293
Total operating expenses	13,960
Operating income (loss)	2,456
NONOPERATING REVENUES (EXPENSES)	
Nonoperating revenues (expenses)	(4,346)
Change in net position	(1,890)
Total net position - beginning	(35,064)
Total net position - ending	$ (36,954)

(12) RESTATEMENT AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD

During fiscal year 2015, the City implemented two new accounting standards. GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27",* revised standards of accounting and reporting for pension expenses and liabilities as well as allowing for the deferral of certain pension expense elements. The City also implemented the related GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68"* which clarifies rules related to the accrual of deferred inflows and outflows of resources at the beginning of the period in which GASB Statement No. 68 is effective. As a result of implementing these two statements, net position was restated at October 1, 2014. The City's net pension obligation and net pension assets were eliminated and replaced by a larger net pension liability. Contributions made by the City to the pension systems from January 1 to September 30, 2015 are reported as deferred outflows of resources. The impact of these changes on the beginning balances reported in the financial statements is shown below (in thousands):

September 30, 2014	**Airport**
Net position, as previously reported	$537,650
Adjustments to properly record implementation of GASB Statements No. 68 and 71	(20,630)
Net position, as restated	$517,020