AUSTIN UTILITIES
Connections for Better Living™

Reflecting on our Values

2015 ANNUAL REPORT

Values

In 2015 Austin Utilities formalized our values to guide our employees and define our work culture. These values will serve as our pillars to better connect and serve our customers.

As we made plans to construct and occupy a new building in 2016, we had the opportunity to reflect on our organizational values. Although we had never formalized our values, it was clear these themes described how we did business and interacted with our customers. After a great deal of internal analysis and discussion we defined Austin Utilities culture by these five values:

- Commitment
- Customer/Community Focus
- Operational Excellence
- Safety
- Stewardship

It is found that companies with a defined culture, in-line with supported values and accepted by committed employees with a strong focus on business goals, will outperform other companies by 200%.

We are close to finalizing construction of our new facility and well on our way to occupying the new space. As we move into this new building, we will continually assess our culture and how it defines Austin Utilities and our commitment to better serve our customers, now and into the future.

We look forward to serving you from our new facility and providing the value we have brought to customers for over one hundred years, as we continue to look for ways to make connections for better living.

Please take care and have a great 2016

Mark Nibaur
General Manager

Austin Utilities holds monthly board meetings that are open to the public on the second Tuesday of each month at 4pm at the Municipal Building. During these meetings, utility decisions are made by our citizen elected board. Austin is one of the few municipal utilities that has a board elected by local citizens.

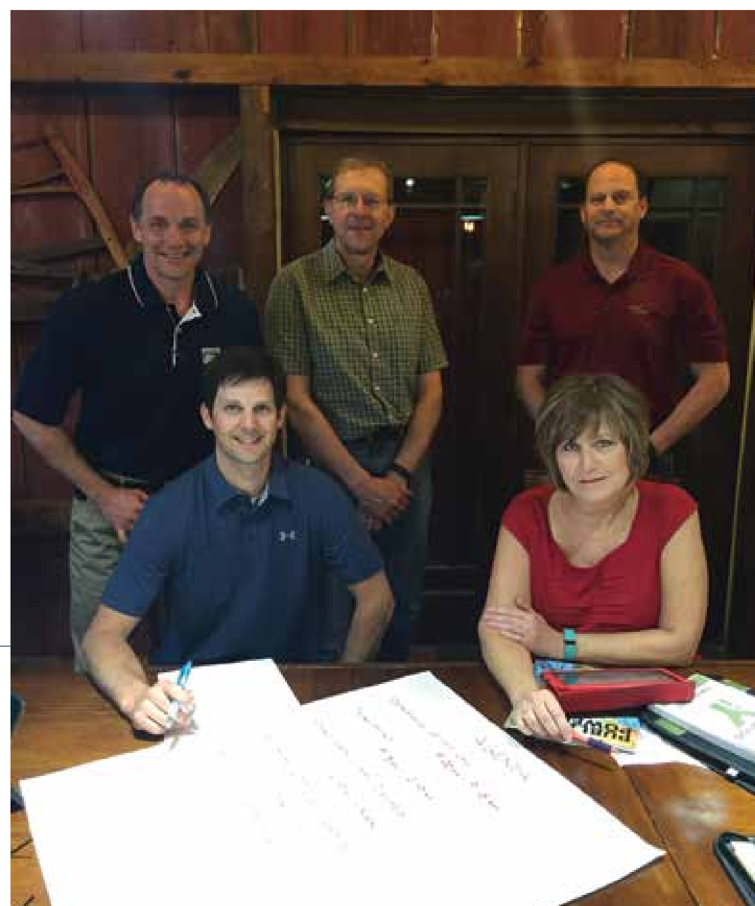
Board of Commissioners

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

"As both a customer and a Commissioner for Austin Utilities, I take the responsibilities of our fiscal management, environmental stewardship and governmental regulations very seriously. All three areas impact our business and our customers on a daily basis. Knowing that our team at Austin Utilities is working together with these same values brings me peace of mind and pride in our public utility."

Jeanne Sheehan, Board of Commissioners 2015

The leadership team sets goals and strategy for Austin Utilities and is made up of our general manager and four directors. They represent all departments within the organization. They meet weekly to make sure the focus stays clear and we continue to progress towards our goals. One major project this year was documenting our values.



Leadership Team

From front row left -
Alex Bumgardner, Energy Resources and Utility Operations Director
Kim Duncomb, Support Services Director

Back Row -
Mark Nibaur, General Manager
Tom Tylutki, Electric Distribution Director
Todd Jorgenson, Gas & Water Operations Director

Safety

Everyone home safe every day.

The utility business can be hazardous. We face hazards with both the weather and just the nature of the work. That is why we take the safety of our staff very seriously. Our goal is to get everyone home safe EVERY day! This is accomplished many ways including safety training, proper PPE (personal protective equipment), and an active safety committee.

2015 was a very successful year for us as we celebrated ZERO OSHA recordable incidents. General Manager, Mark Nibaur, challenged staff to accomplish this goal and as a result of their successful year, Mark allowed staff to shave his head at their annual All Staff safety training day. In addition, in 2015 we earned the Governor's Safety Award for meritorious achievemenrt and the American Public Power Association Safety Award.

"We are fortunate as Austin Utilities employees to have such good support from our company to help us do our job safely."

Skip Ferguson, Line Worker

Stewardship

Efficiently manage our financial, environmental and regulatory responsibilities.

Austin Utilities is governed by an elected utility commission. They are your voice and the regulating authority for many utility decisions. The utility industry is highly regulated. We take our reporting requirements seriously and train our staff to stay on top of our financial, environmental and regulatory responsibilities.

In 2015, Austin Utilities used special bonding to finance a new eighteen million dollar central facility scheduled to open in 2016. On behalf of the Austin Utilities, the City of Austin issued General Obligation Capital Improvement Plan Bonds to finance the new facility. This is the first time AU has financed this much capital for a project so careful attention has been paid to be sure the specific conditions for this type of bonding are being followed.

"Stewardship is an ethic that embodies the responsible planning and management of resources. Here at Austin Utilities we diligently monitor our rates to ensure they are set at appropriate levels to maintain our day to day operations and the continued maintenance and upgrades to our infrastructure."

Ann Christianson, Finance Manager

Operational Excellence:
Meet and exceed reliability and service expectations.

Nobody wants to be without lights, heat or water. That is why we take the value of operational excellence so seriously. If you have lived in Austin your entire life you may not appreciate how reliable our system is. When it comes to utility operations redundancy is a good word. It means we are prepared to serve you even when things don't go as planned.

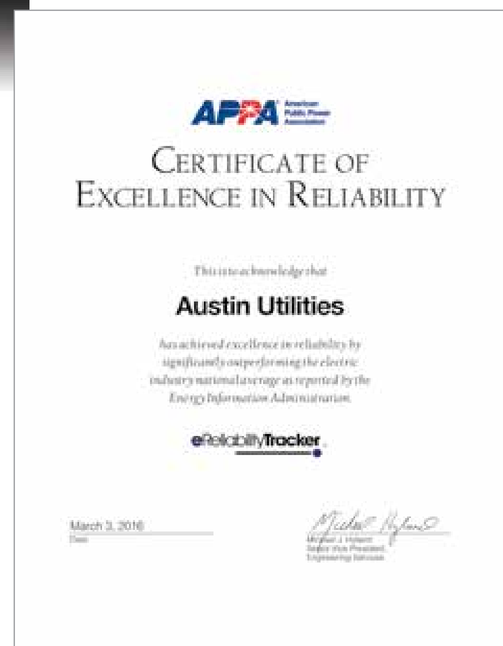
Our natural gas system has two delivery points. Both are capable of handling the entire load of the system if there was a failure of one or the other. During peak usage we are able to use our propane air plant and our interruptible gas programs to ensure our system continues to perform well under the most extreme conditions.

Austin Utilities water supply system is composed of eight groundwater wells that are distributed at various sites throughout our community. These wells provide water supply from underground water aquifers, ranging in depth from 130 feet to 1,000 feet. In addition to our ground water sources, we have six million gallons of water storage and 1,136 fire hydrants installed throughout the City of Austin.

In 2015 our electric system was rated 99.99% reliable and although that looks great, we strive to be 100% reliable. An aggressive tree maintenance program keeps our system performing during the most extreme conditions, and capital projects keep our system up-to-date with newer technology that lets us know when small problems exist before they become big problems. Our loop line system provides back-up to areas that put the most strain on our system.

"In the water department, in addition to monitoring the continuous production of high quality water, we address each customer complaint or question like a minor emergency, and as quickly as we can. It's a big concern for us! We want to assure them, that our water's okay to drink!"

Pete Jacobson, Water and Chemical Technician


APPA American Public Power Association

CERTIFICATE OF EXCELLENCE IN RELIABILITY

This is to acknowledge that

Austin Utilities

has achieved excellence in reliability by significantly outperforming the electric industry national average as reported by the Energy Information Administration.

eReliabilityTracker

March 3, 2016
Date

Austin Utilities received national recognition from the American Public Power Association for achieving exceptional electric reliability in 2015..

Customer and Community Focused

Provide value to our customers and the community we serve.

Municipal utilities are different than private utilities in that they exist to provide a value to the community. We are not driven to make a profit for corporate stakeholders. Instead, we are driven to provide service to our customers and to help make the community of Austin a great place to live and work.

Our 2015 migration to new software is a perfect example of our commitment. Switching billing and software is a daunting task in any organization that requires hours of data conversion and training. But as customers were becoming more tech savvy we needed more tools to serve them. The result is the ability to streamline our internal processes to provide better value to our customers. In addition, a sleek new bill design provides customers more information to help them understand how they use energy including historical graphs.

We were also able to participate in several community events including the United Way, Paint the Town Pink, a Salvation Army food drive, and the Stuff the Bus campaign with Power 96.

"Our Customer/Community Focus value is important to me and my family because of the level of customer service we provide to the community and the strong relationships we develop."

Kim Duncomb, Support Services Director

"I am proud of how much community involvement we have. I have participated with other employees in United Way Day of Caring, Paint the Town Pink and our Salvation Army Food Drive."

Dar Duholm, Customer Service Representative

Commitment:
Everyone is accountable for success

We talk a lot about the benefits of a municipal utility. One of the greatest benefits is the commitment our staff has for the community and the Austin Utilities organization. We are serving our friends and neighbors in a community that many of us grew up in. The success of our organization is the success of this community which has chosen us to serve them.

We continually look at ease of service for our customers and in 2015 we made it even easier to access our payment system. A new service called SmartHub allows online access to your account 24/7. Accessible through the internet or a smartphone app that can be downloaded, it can be of service for a one-time payment or to set up an account to view historical billings and usage. A new pay-by-phone line provides a high level of security for customer information. We also launched a new Facebook page to keep our customers more informed about outages and other utility events.

Our new building, set to open in 2016, also represents our commitment to the future of the Austin community. It will improve the service we offer now and give us room to grow well into the future.

"I hold myself personally responsible to our customers. I look at our processes through their eyes and make sure we are not only serving them the best way possible but making sure they are using energy resources wisely."
Kelly Lady, Marketing and Energy Services Manager

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Austin Utilities, an enterprise fund of the City of Austin, State of Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Austin Utilities, an enterprise fund of the City of Austin, State of Minnesota, as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Austin Utilities fund and do not purport to, and do not, present fairly the net positions of the City of Austin, Minnesota, as of December 31, 2015 and the changes in its net position, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter Regarding Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Utilities adopted new accounting guidance from the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement 68*, as of and for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

CliftonLarsonAllen LLP
Austin, Minnesota, March 8, 2016

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2015

FINANCIAL STATEMENTS OVERVIEW

This discussion and analysis of Austin Utilities' performance provides an overview of the Utilities' activities for the year ended December 31, 2015. The information presented should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

Austin Utilities follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements include the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows.

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

FINANCIAL HIGHLIGHTS

• The net position of Austin Utilities at the close of 2015 was $58,011,450. This is an increase of $3,479,027 over the restated net position balance of 2014.

• By far the largest portion of Austin Utilities net position (76 percent) reflects its investment in capital assets (e.g. buildings, structures and improvements, generating plant equipment, station equipment, distribution lines and distribution mains, meters, furniture and equipment, transportation equipment, power operated equipment, and communication equipment), less the related debt used to acquire those assets that is still outstanding. Austin Utilities uses the capital assets to provide services to our customers: consequently, these assets are not available for future spending.

• Cash flows from operations and the proceeds from the 2015 issuance of General Obligation Capital Improvement Plan Bonds Series 2015A provided cash flows to cover plant needs as capital expenditures for 2015 were $13,997,980. The electric department had capital expenditures of $810,305 which included expenditures for substation improvements, line transformers, meters, load management devices, new services, developments, line extensions and conversions. The water department had capital expenditures of $1,380,781 which included $1,042,633 for main extensions, replacements and hydrants and $338,148 for well rehabilitation and meters. The water department installed over 17,087 feet of new water main during 2015. The gas department had capital expenditures of $568,704, which included $217,845 for meters and $350,859 for mains and services. The gas department installed over 11,485 feet of new gas main in 2015. General Plant capital expenditures were $11,238,190 in 2015 which included $10,657,159 in structures & improvements that is included in construction in progress for the new central facility, $330,804 for vehicles and power operated equipment and $250,227 for new billing and accounting software, communications equipment and laboratory equipment.

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

Condensed Balance Sheets	**2015**	**2014**
Capital Assets, Net	$ 58,059,754	$ 46,343,336
Current Assets	16,031,290	13,239,416
Noncurrent Assets	22,380,047	13,663,010
Other Assets	1,057,490	1,258,580
Total Assets	97,528,581	74,504,342
Deferred Outflows of Resources	709,636	-
Total Assets and Deferred Outflows of Resources	$ 98,238,217	$ 74,504,342
Current Liabilities	$ 7,966,147	$ 6,274,001
Long-Term Liabilities		
Accrued Sick Leave	1,893,004	1,906,961
Long-Term Debt	22,301,807	4,665,293
Net Pension Liability	5,125,511	-
OPEB Liability	2,156,939	1,999,305
Total Liabilities	39,443,408	14,845,560
Deferred Inflows of Resources	783,359	-
Net Position		
Net Investment in Capital Assets	44,168,766	41,345,805
Restricted	53,703	-
Unrestricted	13,788,981	18,312,977
Total Net Position	58,011,450	59,658,782
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 98,238,217	$ 74,504,342

Condensed statement of net position highlights are as follows for the year ended December 31, 2015:

• Current assets increased $2,791,874. Current asset consist of cash and working funds, temporary investments (maturities of one year or less), accounts receivable, inventories, and prepayments.

• Non-current assets increased during 2015 in the amount of $8,717,037. The increase was due to the increase in investments for the Bond Funds relating to the GO CIP Bonds, Series 2015A issued in June 2015.

• Other Assets decreased $201,090. Prepaid expenditures within this classification include preliminary survey and investigation charges, unavailable water assessments, and expenditures for water tower maintenance. Water tower maintenance expenses decreased $198,412 and unavailable assessments decreased $2,678.

• Current liabilities increased $1,692,146 at the end of 2015. The increase was due to the increase in accounts payable and accrued expenses. This also included the current portion of GO Water Revenue Bonds, Series 2012A of $350,000.

• Long-Term Debt increased $17,636,514 as a result of the issuance of the General Obligation Capital Improvement Plan Bonds, Series 2015A in June 2015. The bond proceeds are being used for construction of Austin Utilities' new Central Facility located at Energy Park.

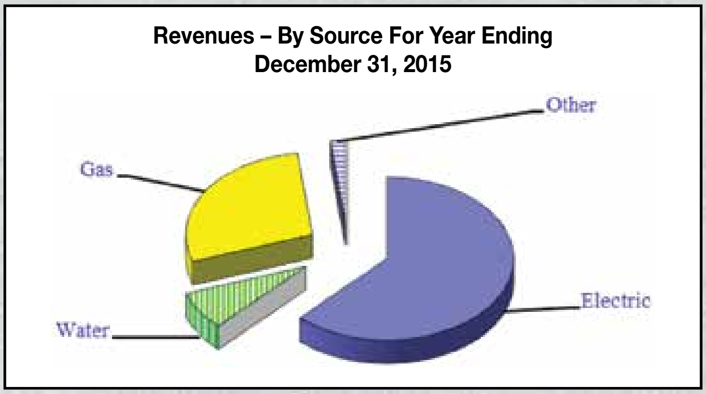
• Net Pension Liability increased $5,125,511 as the Utilities adopted GASB Statement 68, Accounting and Financial Reporting for Pensions, in 2015.

• Long-Term liability Other Post-Employment Benefits Payable increased $157,634 in 2015.

• Accrued sick leave decreased $13,957 in 2015.

• Net position increased $3,479,027 in 2015.

The following chart summarizes operating revenue and source by utility:



The following table summarizes revenues, expenses, and changes in net position of Austin Utilities for the years ended December 31, 2015 and 2014:

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

	2015	2014
Electric		
Operating Revenues, Electric Sales	$ 34,400,002	$ 33,379,559
Other Electric Operating Revenues	890,017	1,089,337
Total Electric Operating Revenues	35,290,019	34,468,896
Operating Expenses	33,291,844	32,951,564
Total Electric Operating Income	1,998,175	1,517,332
Other & Misc Electric Income (Expense)	46,699	823,005
Interest Expense	(127,978)	(259)
Capital Contributions in Aid of Construction	37,880	--
Change in Net Position, Electric	1,954,776	2,340,078
Water		
Operating Revenues, Water Sales	4,208,055	3,926,478
Other Water Operating Revenues	74,558	72,483
Total Water Operating Revenues	4,282,613	3,998,961
Operating Expenses	3,790,574	3,780,597
Total Water Operating Income	492,039	218,364
Other & Misc Water Income (Expense)	17,420	184,346
Interest Expense	(133,462)	(50,207)
Capital Contributions in Aid of Construction	377,430	8,406
Change in Net Position, Water	753,427	360,909
Gas		
Operating Revenues, Gas Sales	15,810,706	23,954,178
Other Gas Operating Revenues	85,328	102,122
Total Gas Operating Revenues	15,896,034	24,056,300
Operating Expenses	15,072,131	23,035,582
Total Gas Operating Income	823,903	1,020,718
Other & Misc Gas Income (Expense)	37,160	388,551
Interest Expense	(102,989)	(259)
Capital Contributions in Aid of Construction	12,750	11,250
Change in Net Position, Gas	770,824	1,420,260
Total Change in Net Position	$ 3,479,027	$ 4,121,247
Beginning Net Position	$ 59,729,461	$ 55,608,214
Change in Net Position	3,479,027	4,121,247
Ending Net Position	$ 63,208,488	$ 59,729,461

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

Electric
2015 Compared to 2014

• Revenue from electric sales increased in the amount of $1,020,443. Other electric operating revenue decreased $199,320. Total revenue per unit increased 2.09% from a unit price of $0.1004 in 2014 to $0.1025 as a result of the Purchased Cost Adjustment (PCA) that was approved at the November 2014 board meeting. The decrease in other electric revenues was a result of a reduction in rebate reimbursements received by our wholesale provider SMMPA for energy conservation measures taken by our customers.

• Operating expenses increased $340,280 in 2015. Steam power generation expenses decreased $339,133 due to decreased operating costs of the electric plant. Power supply expenses increased $760, 305 due to an increase in demand and energy costs in 2015 as purchases were more from our wholesale provider SMMPA. Distribution expenditures increased $19,260 due to the increase in maintenance of overhead lines as repairs were necessary to our 69kv lines from woodpecker damages. Other operating expenses decreased $100,152 a result of the decrease in customer assistance expenses for the reduction of conserve and save rebates given to our customers.

• Other & Misc. Electric Income decreased $776,306. Lower market values on the utility investments and the electric portion of the debt issuance costs accounted for this decrease.

• Interest expense increased $127,719 a result of the electric portion of the interest expense relating to GO CIP Bonds, Series 2015A.
• Capital contributions in aid of construction increased $37,880 in 2015.

Water
2015 Compared to 2014

• Revenue from the sale of water increased $281,577. Other water revenue increased in the amount of $2,075. Total revenue per unit increased 7.37% from a unit price of $1.4852 in 2014 to $1.5946 as a result of the rate increase approved at the November 2014 board meeting. The increase in other water revenues was due to an increase in the number of water taps done for customers.
• Operating expenses increased $9,977. Water production increased due to an increase in power purchased for pumping, pumping labor and maintenance of structures. Distribution expenses decreased as a result of decreased maintenance costs in distribution mains and services as we experienced a more typical winter as comparted to the extremely cold winter weather in 2014. There were 19 water main breaks repaired in 2015 compared to 31 water main breaks in 2014. In 2015, 42 customer-owned water service lines were repaired or replaced compared to 39 in 2014. Other operating expenses increased as a result of increased depreciation expenses and outside engineering services for future water storage options.
• Other & Misc. Water Income decreased $166,926. Lower market values on the utility investments and the water portion of the debt issuance costs accounted for this decrease.
• Interest expense increased $83,255 for interest relating to the water bonds issued in 2012 as well as the water portion of the GO CIP bonds issued in 2015.
• Capital contributions in aid of construction increased $369,024 in 2015.

Gas
2015 Compared to 2014

• Revenue from the sale of natural gas decreased $8,143,472 in 2015. The volume of gas sold decreased 11.4 percent in 2015 as we had a more typical winter as compared to the extremely cold winter in 2014, this decreased revenue by $2,797,715. Total revenue per unit decreased 25.5% from a unit price of $9.0671 in 2014 to $6.7564 in 2015. The change in revenue due to price decreased sales by $5,345,757 in 2015.
• Operating expenses decreased $7,963,451 in 2015. The price of natural gas purchased in 2015 was 36.6 percent lower than 2014, this accounted for $7,823,960 of decreased expenses. Local storage expenses increased $3,478. Distribution expenses decreased $94,781. Other operating expenses decreased $48,189 a result of fewer expenses in customer assistance expenses relating to rebates given to customers for energy conservation efforts in 2015.
• Other & Misc. Gas Income decreased $351,391. Lower market values on the utility investments and the gas portion of the debt issuance costs accounted for this decrease.
• Interest expense increased $102,730 a result of the gas portion of the interest expense relating to GO CIP Bonds, Series 2015A.
• Capital contributions in aid of construction increased $1,500 in 2015.

Combined Utilities
2015 Compared to 2014

• The total change in net position in 2015 was an increase in the amount of $3,479,027 as compared to an increase of $4,121,247 in 2014. The 2015 increase is the result of combined operating income in the amount of $3,314,117 and other & miscellaneous income and capital contributions in aid of construction in the amount of $529,339 and reduced by interest expense in the amount of $364,429.

CAPITAL ASSET AND DEBT ADMINISTRATION
Capital Assets:

• The Utilities investment in capital assets as of December 31, 2014 amounts to $46,343,336 (net of accumulated depreciation). This investment in capital assets includes land and land rights and utility plant in service. In the electric utility the most significant increases occurred in line extensions, developments and conversions and station equipment. In the water utility the most significant increases occurred in infrastructure installation of mains and meters. In the gas utility the most significant increases occurred in the infrastructure installation of mains and services. The general plant increases occurred in structures and improvements.

AUSTIN UTILITIES CAPITAL ASSETS (Net of Depreciation)

	2015	2014	Dollar Change
Land and Land Rights	$ 615,374	$ 615,374	$ --
Electric Plant in Service	16,273,685	16,471,042	(197,357)
Water Plant in Service	17,358,819	16,371,157	987,662
Gas Plant in Service	7,531,251	7,281,029	250,222
General Plant in Service	4,971,609	4,952,877	18,732
Construction in Progress	11,309,016	651,857	10,657,159
	$ 58,059,754	$ 46,343,336	$ 11,716,418

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

Long-Term Debt:

• In 2015 long term debt increased in the amount of $17,631,035 as General Obligation Capital Improvement Plan Bonds, Series 2015A were issued in June 2015 in the amount of $17,635,000. The bonds were sold at premium. The current portion of the General Obligation Water Bonds, Series 2012A due in 2016 is $350,000. See Note 6 to the financial statements for more details related to changes in debt.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

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

Austin Utilities implemented new rates in water department in January 2016 as recommended by an outside rate analyst who completed a cost-of-service and unbundled rate study of the water department in 2014. The electric department implemented a purchased cost adjustment in January 2016 until a cost-of-service and unbundled rate study is completed in 2016 for the electric and gas departments. On November 10, 2015 the Austin Utilities Board of Commissioners approved the 2016 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Austin Utilities, City of Austin, Minnesota's finances for all those expressing an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Manager, 400 4th Street NE, Austin, Minnesota 55912.

STATEMENT OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015
ASSETS	
UTILITY PLANT	
Plant in Service	$ 98,004,563
Construction In Progress	11,309,016
Less Accumulated Depreciation	(51,253,825)
Net Utility Plant	58,059,754
OTHER PROPERTY AND INVESTMENTS	
Non-Utility Property (Net of Accumulated Depreciation)	21,708
Special Funds	6,410,850
Bond Funds	8,727,521
Other Investments	7,219,968
Total Other Property and Investments	22,380,047
CURRENT ASSETS	
Cash and Cash Equivalents	11,179,144
Accounts Receivable (Less Allowance for Uncollectible Accounts of $200,000)	2,857,599
Partnering in Energy Loan Receivable (Less Allowance for Uncollectible Accounts of $0)	5,437
Other Accounts Receivable (Less Allowance for Uncollectible Accounts of $2,000)	227,200
Inventories	1,525,263
Prepaid Expenses	236,647
Total Current Assets	16,031,290
OTHER ASSETS	1,057,490
Total Assets	97,528,581
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	709,636
Total Assets and Deferred Outflows of Resources	$ 98,238,217

NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES	2015
NET POSITION	
Net Investment in Utility and Non-Utility Plant	$ 44,168,766
Restricted for Bond Sinking Fund	53,703
Unrestricted	13,788,981
Net Position	58,011,450
LIABILITIES	
LONG-TERM LIABILITIES	
Accrued Sick Leave	1,893,004
Bonds Payable	22,301,807
Net Pension Liability	5,125,511
Other Postemployment Benefits Payable	2,156,939
Total Long-Term Liabilities	31,477,261
CURRENT LIABILITIES	
Accounts Payable	5,662,216
Accrued Expenses	1,333,212
Current Portion of Bonds Payable	350,000
Other Current Liabilities	620,719
Total Current Liabilities	7,966,147
Total Liabilities	39,443,408
DEFERRED INFLOWS OF RESOURCES	
Pension Related	783,359
Total Net Position, Liabilities and Deferred Inflows of Resources	$ 98,238,217

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2015
OPERATING REVENUES	
Sales	$ 54,418,763
Forfeited Discounts	223,881
Other Operating Revenues	826,022
Total Operating Revenues	55,468,666
OPERATING EXPENSES	
Purchases	34,433,525
Production	1,803,741
Distribution	4,994,186
Other Operating Expenses	10,923,097
Total Operating Expenses	52,154,549
OPERATING INCOME	3,314,117
OTHER REVENUES (EXPENSES)	
Merchandising Contract Work	500
Investment Income (Loss)	349,039
Interest Expense	(364,429)
Other Revenues (Expenses)	(316,941)
Gain on Disposal of Property	68,681
Total Other Revenues (Expenses)	(263,150)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	3,050,967
Capital Contributions	428,060
CHANGE IN NET POSITION	3,479,027
NET POSITION, BEGINNING OF YEAR	59,658,782
RESTATEMENT	(5,126,359)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	54,532,423
NET POSITION, END OF YEAR	$ 58,011,450

STATEMENT OF CASH FLOWS

	2015
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Customers	$ 55,590,069
Cash Received From Others	744,588
Cash Paid to Suppliers	(40,880,350)
Cash Paid to Employees	(5,867,537)
Payments in Lieu of Property Taxes	(1,663,845)
Net Cash Provided by Operating Activities	7,922,925
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Interest Paid on Customer Deposits	(503)
Proceeds from Merchandising/Contract Work	500
Net Cash Used by Non-Capital Financing Activities	(3)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Construction and Acquisition of Plant	(13,516,469)
Proceeds from Sale of Assets	137,548
Proceeds from Contributions in Aid of Construction	428,060
Proceeds from Bond Issuance	17,996,767
Cash Paid for Bond Issuance	(316,941)
Interest Paid	(104,208)
Principal Payments on Bonds	(350,000)
Net Cash Provided by Capital and Related Financing Activities	4,274,757
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Other Investments and Special Funds	(32,976,506)
Sales of Other Investments and Special Funds	24,251,358
Interest Income	333,060
Net Cash Used by Investing Activities	(8,392,088)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,805,591
Cash and Cash Equivalents - Beginning of Year	7,373,553
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 11,179,144
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	$ 3,314,117
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	2,288,007
Decrease (Increase) in Other Assets	201,090
Increase (Decrease) in Accrued Sick Leave	(13,957)
Increase (Decrease) in Other Postemployment Benefits Payable	157,634
Increase (Decrease) in Pension Related Items	72,875
(Increase) Decrease in:	
Customer Accounts Receivable	979,365
Partnering in Energy Solutions Receivable	597
Other Accounts Receivable	(84,112)
Materials and Supplies Inventory	124,868
Prepaid Expenses	15,556
Increase (Decrease) in:	
Accounts Payable	790,994
Accrued Expenses	92,993
Other Liabilities	(17,102)
Net Cash Provided by Operating Activities	$ 7,922,925
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Noncash Transactions -	
Change in Fair Value of Investments	$ (6,578)

NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Austin Utilities have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

B. Financial Reporting Entity

Austin Utilities is an enterprise fund of the City of Austin, Minnesota and is thus exempt from federal and state income tax. The purpose of the fund is to account for the generation and distribution of electrical, gas, and water services to the residents of the City. The Utilities is governed by a five-member Board of Commissioners. Board members are elected for four-year terms.

For financial reporting purposes, the Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the organization to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the organization. The Utilities has no component units which meet the Governmental Accounting Standards Board criteria. The Utilities is considered a part of the reporting entity of the City of Austin, Minnesota and is included in the City's financial statements as an enterprise fund.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recognized when earned. Expenses are recorded when the related liability is incurred. The principal operating revenues and expenses are sales and purchases, production, and distribution expenses.

D. Utility Plant and Depreciation

Capital assets are recorded on a cost basis, including cost of labor and materials used by the Utilities. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction phase of the utility plant is included as part of the capitalized value of the utility plant constructed. For the year ended December 31, 2015, $49,511 of interest was capitalized. The utility plant is recorded and grouped into common or like-kind assets, and depreciated on a composite basis using straight-line depreciation, except for transportation equipment and power operated equipment which are depreciated on an item basis. The Utilities accounts for depreciation on the remaining life method using straight-line depreciation. The Utilities has estimated the remaining lives of assets and has depreciated the assets over the following extended estimated lives:

Transportation Equipment	10 years
Power Operated Equipment	10 – 20 years

E. Cash and Cash Equivalents

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

F. Investments

In accordance with GASB 31, the Utilities records its investments at fair value, except for non-negotiable certificates of deposit, which are stated at cost.

G. Inventory

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

H. Deferred Outflows of Resources

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

I. Sick Leave and Post-Retirement Benefits

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

In addition to providing pension benefits, the Utilities offers health insurance benefits for all retired employees. The maximum employer's obligation is $1,150 annually, with the retiree paying any amount beyond the $1,150 maximum for employees hired prior to January 1, 2005, financed on a pay-as-you-go basis. Employees hired after January 1, 2005 are responsible for the premium.

J. Pension

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

K. Deferred Inflows of Resources

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

L. Revenue Recognition

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

M. Gross Earnings Tax

The Austin Utilities is municipally owned and is exempt from property and income taxes. In lieu of property taxes, a gross earnings tax is paid to the City of Austin. Taxes expensed totaled $1,651,878 in 2015.

N. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the basic financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the basic financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

O. Restatement Due to a Change in Accounting Principle

During the year ended December 31, 2015, the Utilities adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and related Statement No. 71. These pronouncements require the restatement of the December 31, 2014 net position as follows:

Net Position, December 31, 2014 as Previously Reported	$ 59,658,782
Cumulative Effect of Application of GASB 68, Net Pension Liability	(5,345,754)
Cumulative Effect of Application of GASB 71, Deferred Outflow of Resources for Utilities Contributions Made to Plan After June 30, 2014	219,395
Net Position, December 31, 2014, as Restated	$ 54,532,423

NOTE 2 DETAIL OF UTILITY PLANT

Utility plant activity was as follows:

As of December 31, 2015	Beginning Balance	Additions	Retirements	Ending Balance
Land and Land Rights	$ 615,374	$ --	$ --	$ 615,374
Construction Work in Progress	651,857	10,657,159	--	11,309,016
Utility Plant in Service	94,921,452	3,414,600	(946,863)	97,389,189
Less Accumulated Depreciation for Utility Plant in Service	(49,845,347)	(2,288,007)	879,529	(51,253,825)
Capital Assets, Net	$ 46,343,336	11,783,752	(67,334)	58,059,754

Assets included in land and land rights are not being depreciated.

NOTE 3 SPECIAL FUNDS

These funds represent certificates of deposit, demand deposit accounts and debt securities that fund various liabilities and reserves of the Utilities. Special funds consisted of the following at December 31, 2015:

	2015
Employee Sick Pay Benefits Fund	$ 1,826,746
General Liability Insurance Fund	1,083,894
Flexible Spending Account	17,095
Investments Capital Improvement Fund	1,493,265
Other Postemployment Benefits Fund	1,989,850
	$ 6,410,850

NOTE 4 DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Utilities' deposits may not be returned to it in full. The Utilities has an investment policy which follows the Minnesota statutes for deposits.

In accordance with Minnesota statutes the Austin Utilities maintains deposits at financial institutions that are authorized by the Austin City Council.

Minnesota statutes require that all deposits of the Utilities be protected by insurance, surety bond or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes certain U.S. government securities, state or local government obligations, and other securities authorized by Minn. Stat. 118A.03. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

The Utilities' deposits in banks at December 31, 2015 were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

B. Investments

The Utilities may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rated "A" or better
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories
- Repurchase or reverse purchase agreements and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The Utilities had the following investments at December 31, 2015:

		Investment Maturities in Years			
	Fair Value	Less Than 1	1-5 Years	6-10 Years	More than 10
Federal Home Loan Bank Notes	1,502,375	$ --	$ 500,195	$ --	$ 1,002,180
Federal National Mortgage Association Notes	1,470,560	--	500,680	969,880	--
Federal Home Loan Mortgage Corporate Discount Notes	8,659,863	--	4,732,008	2,489,655	1,438,200
Federal Farm Credit Bank Notes	1,932,590	--	--	981,500	951,090
USB Select Money Market Fund	48,336	48,336	--	--	--
	$ 13,613,724	$ 48,336	$5,732,883	$4,441,035	$ 3,391,470

Repurchase Agreement

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

Interest Rate Risk

The Utilities has a formal investment policy that addresses permissible investments, portfolio diversification and instrument maturities. Investment maturities are scheduled to coincide with projected cash flow needs. Within these parameters, it is the Utilities' policy to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses related to rising interest rates.

Credit Risk

As of December 31, 2015, the Utilities' investments in Federal Farm Credit Bank Notes were rated Aaa and AA+ by Moody's Investor Services and Standard & Poor's, respectively, Federal National Mortgage Association obligations were rated Aaa and AA+ by Moody's Investor Services and Standard & Poor's, respectively; Federal Home Loan Bank obligations were rated Aaa and AA+ by Moody's Investor Services and Standard & Poor's, respectively; and, their investments in Federal Home Loan Mortgage Corporate Discount Notes were rated Aaa and AA+ by Moody's Investor Services and Standard & Poor's, respectively. As of December 31, 2014 the Utility had invested $48,336 in the UBS Select Money Market Fund. This investment fund is rated AAAm by Standard & Poor's and Aaa-mf by Moody's Investor Services.

Concentration of Credit Risk

The Utilities does not place a limit on the amount of the total portfolio that may be invested in any one depository or issuer. The Finance Department is responsible for investment decisions and activities under the direction of the Austin Utilities Commission. The following is a list of investments which individually comprise more than 5 percent of the Utilities' total investments:

Federal Farm Credit Bank Notes	$ 1,932,590
Federal Home Loan Bank Notes	1,502,375
Federal National Mortgage Association Notes	1,470,560
Federal Home Loan Mortgage Corporate Discount Notes	8,659,863
Repurchase Agreement - U.S. Bank	6,866,384
	$20,431,772

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utilities will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utilities does not have a formal policy regarding the holding of securities by counterparties, however, as of December 31, 2015, the Utilities did not have any such arrangements.

C. Balance Sheet Presentation

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

Deposits	$13,057,375
Repurchase Agreement - U.S. Bank	6,866,384
Investments	13,613,724
	$33,537,483

Statement of Net Position:	
Cash and Cash Equivalents	$ 11,179,144
Special Funds	6,410,850
Bond Funds	8,727,521
Other Investments	7,219,968
Total	$33,537,483

NOTE 5 OTHER ASSETS

Other assets consist of the following at December 31, 2015.

Water Tower Maintenance	$ 959,817
Unavailable Special Assessments	97,673
	$ 1,057,490

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

NOTE 6 LONG-TERM DEBT

A. Components of Long-Term Debt

	Interest Rate	Issue Date	Final Maturity	Original Issue	Principal Outstanding	Due Within One Year
G.O. Water Revenue Bonds, Series 2012A	2.0%-2.5%	07/12/12	12/01/27	$5,600,000	$4,600,000	$350,000
G.O. Capital Improvement Plan Bonds, Series 2015A	2.0%-3.625%	06/01/15	02/01/36	17,635,000	17,635,000	--
Total General Obligation Bonds					22,235,000	350,000
Bond Premium					416,807	--
					$22,651,807	$350,000

B. Minimum Future Debt Payments

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

Year Ended December 31,	Principal	Interest
2016	$ 350,000	$ 748,279
2017	1,020,000	641,619
2018	1,035,000	621,119
2019	1,055,000	596,819
2020	1,080,000	568,519
2021-2025	5,795,000	2,444,269
2026-2030	5,385,000	1,521,484
2031-2035	5,335,000	686,428
2036	1,180,000	21,388
	$ 22,235,000	$ 7,849,924

C. Description of Long-Term Debt

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

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

D. Changes in Long-Term Debt

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

As of December 31, 2015	Beginning Balance	Additions	Payments	Ending Balance
G.O. Water Revenue Bonds, Series 2012A	$ 4,950,000	$ —	$ (350,000)	$ 4,950,000
Bond Premium	70,772	—	(5,479)	65,293
G.O. Capital Improvement Plan, Series 2015A	--	17,635,000	—	17,635,000
Bonds Premium	--	361,767	(10,253)	351,514
	$ 5,020,772	$ 17,996,767	$ (365,732)	$22,651,807

NOTE 7 ACCRUED SICK LEAVE

Accrued sick leave consisted of $1,893,004 of December 31, 2015. Employees of the Utilities can earn sick pay at the rate of eight hours per month. Sick pay not taken in the current year is accumulated and is payable upon retirement or termination of employment. The Utilities is required to maintain investments or cash balances equal to at least 80% of the accumulated sick pay benefits. At December 31, 2015, the Utilities had specifically restricted investments totaling $1,826,746 or 96% the accumulated benefits.

NOTE 8 DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

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

B. Benefits Provided

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

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

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

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

C. Contributions

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The Utilities was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The Utilities' contributions to the GERF for the year ended December 31, 2015, were $442,817. The Utilities' contributions were equal to the required contributions as set by state statute.

D. Pension Costs

At December 31, 2015, the Utilities reported a liability of $5,125,511 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the net pension liability was based on the Utilities' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Utilities' proportion was .0989%.

For the year ended December 31, 2015, the Utilities recognized pension expense of $508,236 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the Utilities reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ --	$ 258,413
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	485,208	--
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	--	524,946
District Contributions Subsequent to the Measurement Date	224,428	--
Total	$ 709,636	$ 783,359

$224,428 reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 30	Pension Expenses Amount
2016	$ (139,818)
2017	(139,818)
2018	(139,818)
2019	121,303

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45%	5.50%
International Equity	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Totals	100%	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position 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.

G. Pension Liability Sensitivity

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

Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
GERF Discount Rate	6.90%	7.90%	8.90%
Utilities' Proportionate Share of the GERF Net Pension Liability	$ 8,059,126	$ 5,125,511	$ 2,702,797

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The Utilities operates a single-employer retiree benefit plan ("the Plan") that provides health insurance to eligible employees and their spouses through the Utilities' health insurance plan. There are 84 active participants and 76 retired participants. Benefit and eligibility provisions are established through negotiations between the Utilities and various unions representing the Utilities' employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

Contribution requirements are also negotiated between the Utilities and the union representatives. The Utilities contributes up to 100% of the cost of current year premiums for eligible retired plan members and their spouses. The Utilities contributed $885,658 to the plan for fiscal years 2015.

C. Annual OPEB Cost and Net OPEB Obligation

The Utilities' annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Utilities' annual OPEB cost for the year, the amount actually paid from the plan, and changes in the Utilities' net OPEB obligation.

	2015
Annual Required Contribution	$ 1,076,695
Interest on Net OPEB Calculation	79,972
Adjustment to Annual Required Contribution	(113,375)
Annual OPEB Cost (Expense)	1,043,292
Contributions Made	(885,658)
Increase in Net OPEB Obligation	157,634
Net OPEB Obligation - Beginning of Year	1,999,305
Net OPEB Obligation - End of Year	$ 2,156,939

The Utilities' annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2015 and the two preceding years are:

Fiscal Year Ended	Annual OPEB	Percentage of Annual OPEB Cost Cost Contributed	Net OPEB Obligation
12/31/2015	$1,043,292	84.9%	$2,156,939
12/31/2014	1,041,132	81.1%	1,999,305
12/31/2013	1,046,541	79.4%	1,802,181

D. Funded Status and Funding Progress

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 7.5% reduced by decrements to an ultimate rate of 5% after five years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2015 does not exceed 30 years.

NOTE 10 RISK MANAGEMENT

The Utilities is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The Utilities has purchased commercial insurance for its personal property claims. Coverage is provided on building and contents up to $88,619,069.

The Utilities participates in the League of Minnesota Cities Insurance Trust (LMCIT) for its workers compensation insurance. The plan is administered by Berkley Administrators. Each member of the association is required to pay a premium for coverage of claims and administrative expenses. This is a retrospectively rated policy with the premium being based primarily on the Utilities' loss experience. An aggregate excess reinsurance policy provides the group with additional funds for protection from losses not covered by the specific excess. In addition, per occurrence coverage for claims has been purchased. Each member is jointly and severally liable for additional assessments. As of the date of this report, it is not possible to determine if any additional liability exists for the year ended December 31, 2015.

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

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

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES

Power Sales Contract

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

Gas Purchase Commitment

The Utilities has entered into forward contracts to purchase a portion of its natural gas at a specified time in the future at a guaranteed price. The Utilities enters into these contracts to help plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity.

It is possible that the market price before or at the specified time to purchase natural gas may be lower than the price at which the Utilities is committed to buy. This would reduce the value of the contract. The Utilities is committed to purchase 3,925,048 thousand cubic feet of natural gas through October 2022 for a total commitment of $16,494,622 at
December 31, 2015.

Economic Dependency

During the year ended December 31, 2015 net sales to Hormel Foods Corporation amounted to $13,057,150. Sales to this customer accounted for 10% or more of the total revenue of the Utilities.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2013	$ -	$ 14,087,950	$ 14,087,950	0.0%	$ 5,567,070	253.1%
1/1/2010	-	14,043,099	14,043,099	0.0%	5,902,318	237.9%
1/1/2008	-	12,803,784	12,803,784	0.0%	6,707,512	190.9%

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

Fiscal Year	2015
Measurement Date	6/30/15
Utilities' Proportion of the Net Pension Liability	0.0989%
Utilities' Proportionate Share of the Net Pension Liability	$5,125,511
Utilities' Covered-Employee Payroll	6,056,621
Utilities' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	84.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%

AUSTIN UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF UTILITIES CONTRIBUTIONS

	2015
Contractually Required Contribution	$ 442,817
Contributions in Relation to the Contractually Required Contribution	(442,817)
Contribution Deficiency (Excess)	$ --
Utilities' Covered-Employee Payroll	$ 5,915,410
Contributions as a Percentage of Covered Employee Payroll	7.49%

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

Administration
Mark Nibaur (General Manager)
Sarah Douty

Accounting/Finance
Ann Christianson (Manager)
Joan Maxfield, Dana Steichen

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

Gas/Water/Engineering Operations
Todd Jorgenson (Director)

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

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

Utility Operations
Alex Bumgardner (Director)

Dispatch and Utility Operations
Jess Dunlap (Supervisor)
Steve Bissett, Bob Hyland, Mike Johnson, Jay Kohnke, Duane McGonigle, Steve Millam, Dave White ~~ Tom Kitzman (retired 2015)

Information Systems
Butch Goergen (Manager)
Jonas Morehouse

Fleet Maintenance
Brad Sistek

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

Support Services
Kim Duncomb (Director)

Customer Service
Melissa Swenson (Supervisor)
Brad Bednar, Dar Duholm, Kerry Hall, Dale Helgeson, Beth Johannsen, John LaVelle, Mike Leidal, Jenny Loucks, Stan Rudenske, Dave Thompson, Wendy Whalen, Kara Wollschlager ~~ Joanne Benson (retired 2015)

Marketing and Energy Services Manager
Kelly Lady

Storeroom (Purchasing)
Randy Judd (Supervisor)
Jerry Stowell