



*Bryan Texas Utilities*

Rural Electric System

**Annual Financial Report**

For the Fiscal Years Ended September 30, 2016 and 2015

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**Bryan Texas Utilities**  
**Rural Electric System**  
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For the Fiscal Years Ended September 30, 2016 and 2015

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**Bryan Texas Utilities  
Rural Electric System**

**Introduction**

Bryan Texas Utilities (BTU) is pleased to present the Annual Financial Report for the fiscal years ended September 30, 2016 and 2015. This report is published to provide the BTU Board of Directors (Board), the City of Bryan, the Bondholders, representatives of financial institutions, and other interested parties detailed information concerning the financial condition of BTU.

BTU is an enterprise activity of the City of Bryan, Texas. BTU operates a “City” and “Rural” electric system, (the “City Electric System” and the “Rural Electric System”, respectively). Each system, while operated by a common staff, is maintained separately for accounting and reporting purposes. BTU’s Rural Electric System purchases all of its energy from the City Electric System. BTU’s common staff is employed by the City Electric System and is either direct billed to the Rural Electric System or is billed through the City Electric System’s purchased power rates. Generally, all power supply, customer service and administrative services are billed through purchased power rates, while distribution services are direct billed. Rural purchased power rates are established through City of Bryan ordinance. The accompanying financial statements present only the Rural Electric System and are not intended to present the financial position or results of operations of the City Electric System or the City of Bryan, Texas.

The Rural Electric System provides electric service to the immediate rural area outside the City of Bryan extending to most of Brazos County, service adjacent to and including portions of the City of College Station, and parts of Burleson, and Robertson counties in a radius of nearly 20 miles from the City of Bryan.

The Rural Electric System is managed by the BTU Board. The BTU Board, established on June 12, 2001, is appointed by the Bryan City Council and is empowered with the management and control of BTU. The Bryan City Council retains authority for approval of the annual budget, rates for electric service, condemnations and debt financing.

BTU management has prepared and is responsible for the financial statements and related information included in this report. Management believes that its policies and procedures provide guidance and reasonable assurance that the Rural Electric System operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the net position, changes in net position and cash flows of the Rural Electric System in conformity with accounting principles generally accepted in the United States of America.



## INDEPENDENT AUDITOR'S REPORT

To the City Council of City of Bryan, Texas  
And Board of Directors of Bryan Texas Utilities

We have audited the accompanying financial statements of the Rural Electric System of Bryan Texas Utilities (BTU) of the City of Bryan, Texas, as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Rural Electric System's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

BTU's 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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. 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 auditor's 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.

To the City Council of City of Bryan, Texas  
And Board of Directors of Bryan Texas Utilities

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Rural Electric System of BTU of the City of Bryan, Texas, as of September 30, 2016 and 2015, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Rural Electric System of BTU, and do not purport to, and do not present fairly the financial position of the City Electric System of BTU, or the City of Bryan, Texas, as of September 30, 2016 and 2015, and the respective changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. 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 on pages 5-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rural Electric System of BTU of the City of Bryan, Texas' basic financial statements. The introduction section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

To the City Council of City of Bryan, Texas  
And Board of Directors of Bryan Texas Utilities

The introduction section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Houston, Texas  
January 23, 2017

**Bryan Texas Utilities  
Rural Electric System**

**Management's Discussion and Analysis**  
**(Unaudited)**

This discussion and analysis of the Rural Electric System financial performance provides an overview of financial activities for the years ended September 30, 2016 and 2015. Please read this information in conjunction with the accompanying financial analysis, the financial report, and the notes to financial statements.

**Overview of Annual Financial Report**

The financial statements report information about the Rural Electric System using accrual accounting methods as utilized by similar business activities in the private sector. The Rural Electric System annual reporting period ("fiscal year") ends September 30.

The Statements of Net Position include the Rural Electric System assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for the evaluation of capital structure, liquidity, and flexibility of the Rural Electric System.

The Statements of Revenues, Expenses and Changes in Net Position present the results of the business activities (revenues and expenses) over the course of the fiscal year and can provide information about the Rural Electric System recovery of its costs.

The Statements of Cash Flows present cash receipts, cash disbursements and net changes in cash resulting from operating, financing and investing activities. This statement provides information such as where cash came from, what cash was used for and what the changes in cash balances were during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Rural Electric System accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

**Bryan Texas Utilities  
Rural Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2016 and 2015  
(Unaudited)

**Condensed Statements of Net Position**

	<u>September 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 10,917,277	\$ 11,302,049	\$ 10,957,678
Capital assets, net	70,620,151	64,415,669	58,058,918
Restricted assets	10,901,132	2,312,495	4,987,739
Other	-	7,910	26,704
Total assets	<u>92,438,560</u>	<u>78,038,123</u>	<u>74,031,039</u>
Current liabilities	4,872,191	5,798,256	4,858,014
Current liabilities payable from restricted assets	2,600,918	1,833,884	2,843,370
Noncurrent liabilities	<u>23,043,290</u>	<u>11,751,705</u>	<u>12,470,082</u>
Total liabilities	30,516,399	19,383,845	20,171,466
Deferred inflows	7,717,972	6,258,505	4,612,158
Net position:			
Net investment in capital assets	47,592,141	46,433,208	42,673,309
Restricted	566,963	450,862	447,737
Unrestricted	<u>6,045,085</u>	<u>5,511,703</u>	<u>6,126,369</u>
Total net position	<u>\$ 54,204,189</u>	<u>\$ 52,395,773</u>	<u>\$ 49,247,415</u>

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

	<u>Fiscal Year Ended September 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 41,931,026	\$ 39,287,075	\$ 35,728,300
Operating expenses	<u>39,189,303</u>	<u>35,717,091</u>	<u>32,787,741</u>
Operating income	2,741,723	3,569,984	2,940,559
Investment income	41,114	75,800	73,213
Interest expense	<u>(974,421)</u>	<u>(497,426)</u>	<u>(524,922)</u>
Change in net position	1,808,416	3,148,358	2,488,850
Net position, beginning of period	<u>52,395,773</u>	<u>49,247,415</u>	<u>46,758,565</u>
Net position, end of period	<u>\$ 54,204,189</u>	<u>\$ 52,395,773</u>	<u>\$ 49,247,415</u>

**Bryan Texas Utilities**  
**Rural Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2016 and 2015  
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**Customer Count**

**FY2016** - The Rural Electric System's retail customer base of 20,155 increased by 1,087 customers, or 5.7%, compared to FY2015. The economy in the local area continues to grow which has caused the Rural Electric System's service load to expand; especially, in new subdivisions south of the City of College Station service area and in surrounding areas of Brazos County.

**FY2015** - The Rural Electric System's retail customer base of 19,068 increased by 740 customers, or 4.0%, compared to FY2014. The economy in the local area continues to grow as described above.

**Retail Sales**

**FY2016** - Retail energy sales of 394,713 MWh decreased by 10,694 MWh, or 2.6%, compared to FY2015; due primarily to milder weather during the fiscal year ended September 30, 2016.

**FY2015** - Retail energy sales of 405,407 MWh increased by 19,567 MWh, or 5.1%, compared to FY2014; due primarily to customer growth and colder than normal winter weather during the fiscal year ended September 30, 2015.

**Operating Revenue**

**FY2016** - Operating revenues of \$41,931,026 were \$2,643,951, or 6.7%, above the FY2015 total of \$39,287,075. The increase was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Base revenue (higher rates & customer growth offset mild weather)	0.3
Fuel revenue (higher rates & customer growth)	1.7
Regulatory revenue (higher rates & customer growth)	0.6
Total	\$ 2.6

**FY2015** - Operating revenues of \$39,287,075 were \$3,558,775, or 10.0%, above the FY2014 total of \$35,728,300. The increase was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Base revenue (higher rates, customer growth, weather)	\$ 3.1
Regulatory revenue (higher rates, customer growth, weather)	1.1
Lower fuel revenues	(0.6)
Total	\$ 3.6

**Bryan Texas Utilities  
Rural Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2016 and 2015  
(Unaudited)

**Operating Expenses**

**FY2016** - Operating expenses of \$39,189,303 were \$3,472,212, or 9.7%, above the FY2015 total of \$35,717,091. The increase was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Increased purchased power costs	\$ 0.5
Increased fuel costs	1.7
Increased regulatory charges	0.6
All other	0.7
Total	\$ 3.5

**FY2015** - Operating expenses of \$35,717,091 were \$2,929,350, or 8.9%, above the FY2014 total of \$32,787,741. The increase was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Increased purchased power costs	\$ 2.4
Increased regulatory charges	1.1
Lower fuel costs	(0.6)
Total	\$ 2.9

**Capital Assets**

**FY2016** - Net utility plant at September 30, 2016, of \$70,620,151 was \$6,204,482, or 9.6%, higher than the balance of \$64,415,669 at September 30, 2015. The increase in capital assets was primarily the result of construction expenditures supporting continued customer growth.

**FY2015** - Net utility plant at September 30, 2015, of \$64,415,669 was \$6,356,751, or 10.9%, higher than the balance of \$58,058,918 at September 30, 2014. The increase in capital assets was primarily the result of construction expenditures supporting continued customer growth.

**Significant Events**

Long-Term Debt -

For the fiscal year ended September 30, 2016, the City of Bryan issued revenue refunding and improvement bonds dated July 13, 2016 ("2016 Revenue Bonds") totaling \$15,770,000 for the Rural Electric System. The 2016 Revenue Bonds mature serially beginning July 1, 2017, through July 1, 2041, with coupon rates ranging from 2.000% to 5.000%. The proceeds from the sale of the 2016 Revenue Bonds are restricted to acquisition or construction of improvements, additions, or extensions to the Rural Electric System; capital assets, facilities, and equipment incident and related to the operation, maintenance, or administration of the Rural Electric System; and refunding portions of Rural Electric System's outstanding bonds for debt service savings.

**Bryan Texas Utilities  
Rural Electric System**

Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2016 and 2015  
(Unaudited)

Rates –

On October 1, 2015, the City Electric System implemented phase two of a three phase wholesale electric rate adjustment billable to the Rural Electric System. Simultaneously, the Rural Electric System implemented an electric rate adjustment for its retail customers. The three phases, effective on October 1, 2014, 2015, and 2016, will produce a 9.9% increase in base rates over three years.

On October 1, 2015, the City Electric System increased the Regulatory Charge (RC) component of its rates for retail customers and the Rural Electric System wholesale rate. The RC is used to recover BTU's full cost of the Wholesale Transmission Service Charges as established by the Public Utility Commission of Texas and for other fees assessed by regulatory bodies. The City Electric System increased the RC 20% for all retail customer classes and the Rural Electric System wholesale rate to eliminate the projected under recovery of regulatory costs.

Power Supply Adjustment –

On October 1, 2015, the Rural Electric System increased the Power Supply Adjustment (PSA) component of electric rates for its retail customers. The PSA is used to recover fuel costs, net purchased power costs, and adjustments for the over or under recovery for such costs from preceding periods. The Rural Electric System increased the PSA \$0.0050/kWh (16.5%) for its retail customers to eliminate the projected under recovery of fuel and purchased power costs.

**Subsequent Events**

Electric Rates –

On October 1, 2016, the City Electric System implemented phase three of a three phase wholesale electric rate adjustment billable to the Rural Electric System. Simultaneously, the Rural Electric System implemented an electric rate adjustment for its retail customers. Base rates have increased 9.9% over the three year phase in period.

**Bryan Texas Utilities  
Rural Electric System**

Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2016 and 2015  
(Unaudited)

**Requests for Information**

This financial report is designed to provide readers with a general overview of BTU's Rural Electric System finances. For questions concerning any of the information provided in this report or requests for additional information, contact Bryan Texas Utilities, P.O. Box 1000, Bryan, Texas 77805, or <http://www.btutilities.com/contact-us/>

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BTU General Manager:  
Gary Miller

BTU Group Managers:  
Randy Trimble  
David Werley

City of Bryan:  
Kean Register, City Manager  
Joe Hegwood, Chief Financial Officer  
Bernie Acre, Chief Information Officer

**Bryan Texas Utilities**  
**Rural Electric System**  
Statements of Net Position  
At September 30, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 6,277,122	\$ 5,859,226
Accounts receivable	4,608,645	4,404,707
Less allowance for uncollectible accounts	(120,581)	(130,879)
Under-recovered fuel	45,437	1,030,124
Under-recovered regulatory fee	106,654	138,871
Total current assets	10,917,277	11,302,049
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	8,899,842	308,635
Investments	2,001,290	2,003,860
Capital assets	100,738,675	92,236,838
Less accumulated depreciation	(30,118,524)	(27,821,169)
Other noncurrent assets	-	7,910
Total noncurrent assets	81,521,283	66,736,074
Total assets	\$ 92,438,560	\$ 78,038,123

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

**Bryan Texas Utilities  
Rural Electric System**  
Statements of Net Position - continued  
At September 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b><u>Liabilities</u></b>		
Current liabilities:		
Accounts payable	\$ 1,056,954	\$ 715,530
Accrued liabilities	23,862	152,948
Due to other funds	3,672,858	4,858,109
Other current liabilities	118,517	71,669
Total current liabilities	4,872,191	5,798,256
Current liabilities payable from restricted assets:		
Accrued interest	137,533	107,756
Bonds - current portion	1,060,000	705,000
Customer deposits	1,403,385	1,021,128
Total current liabilities payable from restricted assets	2,600,918	1,833,884
Non-current liabilities:		
Bonds payable	21,475,000	11,610,000
Bond premiums	1,568,290	141,705
Total noncurrent liabilities	23,043,290	11,751,705
Total liabilities	\$ 30,516,399	\$ 19,383,845
<b><u>Deferred Inflows</u></b>		
Deferred regulatory liability	\$ 7,717,972	\$ 6,258,505
<b><u>Net Position</u></b>		
Net investment in capital assets	47,592,141	46,433,208
Restricted for debt service	566,963	450,862
Unrestricted	6,045,085	5,511,703
Total net position	\$ 54,204,189	\$ 52,395,773

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

**Bryan Texas Utilities**  
**Rural Electric System**  
Statements of Revenues, Expenses  
And Changes in Net Position  
For the Fiscal Years Ended September 30, 2016 and 2015

	<b>FY2016</b>	<b>FY2015</b>
Operating revenues:		
Electrical system	\$ 41,931,026	\$ 39,287,075
Total operating revenues	41,931,026	39,287,075
Operating expenses:		
Personnel services	596,486	486,813
Electric operations	34,892,666	32,094,082
Maintenance	876,625	513,023
General and administrative	183,038	170,909
Depreciation	2,640,488	2,452,264
Total operating expenses	39,189,303	35,717,091
Operating income	2,741,723	3,569,984
Non-operating revenues (expenses):		
Investment income	41,114	75,800
Interest expense	(974,421)	(497,426)
Total non-operating revenues (expenses)	(933,307)	(421,626)
Increase in net position	1,808,416	3,148,358
Net position, beginning of period	52,395,773	49,247,415
Net position, end of period	\$ 54,204,189	\$ 52,395,773

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

**Bryan Texas Utilities**  
**Rural Electric System**  
Statements of Cash Flows  
For the Fiscal Years Ended September 30, 2016 and 2015

	<b>FY2016</b>	<b>FY2015</b>
<b><u>Cash flows from operating activities</u></b>		
Receipts from customers	\$ 42,082,486	\$ 38,707,792
Payments to suppliers	(35,741,500)	(33,882,043)
Payments to employees	(678,723)	(467,337)
Net cash provided by operating activities	5,662,263	4,358,412
<b><u>Cash flows from capital and related financing activities</u></b>		
Purchases of capital assets	(7,398,544)	(7,091,923)
Proceeds from capital debt	12,137,346	-
Principal paid on capital debt	(705,000)	(690,000)
Interest paid on capital debt	(496,009)	(540,969)
Bond issuance costs	(234,396)	-
Net cash provided by (used by) capital and related financing activities	3,303,397	(8,322,892)
<b><u>Cash flows from investing activities</u></b>		
Interest and dividends received	43,443	74,668
Net cash provided by investing activities	43,443	74,668
Net increase (decrease) in cash and cash equivalents	9,009,103	(3,889,812)
Balance-beginning of the year	6,167,861	10,057,673
Balance-end of the year	\$ 15,176,964	\$ 6,167,861
<b><u>Reconciliation of ending cash balance</u></b>		
Cash and cash equivalents	\$ 6,277,122	\$ 5,859,226
Cash and cash equivalents – restricted	8,899,842	308,635
Balances-end of year	\$ 15,176,964	\$ 6,167,861

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

**Bryan Texas Utilities**  
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Statements of Cash Flows - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

**Reconciliation of operating income to net cash provided by operating activities:**

	<u>FY2016</u>	<u>FY2015</u>
Operating income	\$ 2,741,723	\$ 3,569,984
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,640,488	2,452,264
Bad debts	24,711	25,324
Change in assets and liabilities:		
Accounts receivable	(230,796)	(470,361)
Under-recovered regulatory fee	32,217	(37,539)
Under-recovered fuel	984,687	(1,030,124)
Accounts payable	508,333	(184,363)
Accrued liabilities	(82,237)	19,476
Over-recovered fuel and regulatory fees	-	(1,050,578)
Customer deposits	382,257	29,948
Due to other funds	(1,339,120)	1,034,381
Net cash provided by operating activities	<u>\$ 5,662,263</u>	<u>\$ 4,358,412</u>

**Non-cash capital and financing activities:**

During the fiscal year ended September 30, 2016, the City of Bryan issued general obligation refunding bonds to refund Rural Electric System debt issued in 2006. Proceeds of \$5,043,214 were deposited immediately into an irrevocable trust for the defeasance of \$4,845,000 of outstanding revenue bond principal and accrued interest thereon.

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

**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

1. Summary of Significant Accounting Policies

Reporting Entity - Bryan Texas Utilities (BTU) is a municipally owned utility system that operates as an enterprise activity of the City of Bryan, Texas. BTU operates a city and rural electric system, (the “City Electric System” and the “Rural Electric System”, respectively). Each system, while operated by a common staff, is maintained separately for accounting and reporting purposes. The Rural Electric System is the reporting entity. These financial statements present only the Rural Electric System and are not intended to present the financial position of BTU’s City Electric System or the City of Bryan, Texas (the “City”) nor the results of their operations and cash flows in conformity with generally accepted accounting principles.

Financial Statements - The financial statements for the Rural Electric System (a proprietary fund) are reported using the economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Statement of Revenues, Expenses and Changes in Net Position distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Operating expenses for the Rural Electric System include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Basis of Accounting - The Rural Electric System is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Accounting records are maintained in accordance with accounting principles generally accepted in the United States of America. The Rural Electric System prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

New Accounting Pronouncements, Changes in Accounting Principles and Restatements - During the fiscal year ended September 30, 2016, BTU adopted the following GASB pronouncements:

GASB Statement No. 72, Fair Value Measurement and Application (GASB 72), addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The Rural Electric System adopted this guidance in FY 2016.

The following guidance issued by GASB are effective for fiscal years after FY 2016 and may be applicable to the Rural Electric System:

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing

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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

ARO. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Therefore, if applicable, the City will implement this guidance in FY 2019.

Restricted Funds

Restricted funds consist of construction funds derived from debt issues, system revenues that have been designated for specific purposes by the BTU Board or other funds with legal or contractual constraints. When both restricted and unrestricted resources are available for use, it is BTU's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates - In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from these estimates.

Utility Revenues, Fuel Recovery, and Regulatory Recovery - Customers are billed on the basis of monthly cycle billings. At fiscal year end, the Rural Electric System accrues estimated unbilled revenues (excluding fuel). The Rural Electric System is allowed to recover purchased power cost through fuel revenue rates. The difference between fuel revenues billed and fuel expense incurred is recorded as an addition or a reduction to fuel and purchased power expense, with a corresponding entry to accounts payable - over recovered fuel or accounts receivable - under recovered fuel, whichever is appropriate. At September 30, 2016 and 2015, the Rural Electric System reflected a current asset – under recovered fuel of \$45,437 and \$1,030,124, respectively.

The difference between regulatory revenue billed and regulatory expense incurred is recorded as an addition or a reduction to transmission cost of service expense, with a corresponding entry to accounts payable – over recovered regulatory fee or accounts receivable – under recovered regulatory fee, whichever is appropriate. At September 30, 2016 and 2015, the Rural Electric System reported a current asset – under recovered regulatory fee of \$106,654 and \$138,871, respectively.

Capital Assets - Capital assets are stated at the historical cost. Also, to the extent the construction is performed by the Rural Electric System, the cost includes payroll and related costs and certain general and administrative expenses. Assets constructed utilizing funds collected from customers and developers as contributions of aid in construction (AIC) are also capitalized. Interest is not capitalized in these accounts because interest is recovered concurrently in the utility rate structure. Maintenance, repairs and minor replacements are charged to operating expense, while major property replacements are capitalized. Except for certain assets that may become impaired, the cost of depreciable plant retired, plus removal cost and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, any losses associated with capital asset impairments will be charged to operations, not accumulated depreciation. Depreciation is recorded on a straight-line basis over estimated service lives ranging from 5 to 33 years.

Cash and Cash Equivalents – For purposes of cash flows, the Rural Electric System considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents from restricted assets are also included.

Bond Issuance Expenses - According to the financial reporting requirements of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, bond issuance expenses are to be expensed as incurred. Issuance expenses are reported on the Statements of Revenues, Expenses and Changes in

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Net Position in interest expense. For the fiscal year ended September 30, 2016, the Rural Electric System incurred \$234,396 in bond issuance costs. The Rural Electric System did not incur any bond issuance costs for the year ending September 30, 2015.

Deferred Regulatory Liability – To better align certain benefits received with BTU’s retail rate design, the Rural Electric System utilizes regulatory accounting treatment for the funds it collects from customers and developers as contributions of aid in construction (AIC) under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. The Rural Electric System recognizes AIC received as a deferred regulatory liability in the deferred inflows section of the Statements of Net Position. The deferred regulatory liability is amortized to depreciation expense over the life of the asset constructed. During the fiscal years ended September 30, 2016 and 2015, the Rural Electric System collected \$1,700,653 and \$1,841,186, respectively, of AIC.

2. Cash and Investments

Rural Electric System cash is managed by BTU and deposited into separate revenue and operating accounts at the City’s depository bank in the name of the BTU Rural Electric System. All Rural Electric System cash is deposited in accounts that receive interest credit, a fee allowance, or is invested in permissible securities pursuant to BTU’s investment policy. Investments are stated at fair value based on quoted market prices provided by the custodian.

Deposits

State statutes require that all deposits in financial institutions be fully collateralized with depository insurance or by U.S. Government obligations or its agencies and instrumentalities; or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The Rural Electric System demand deposits for the fiscal years ended September 30, 2016 and 2015 were held at Branch Banking & Trust Company. These deposits were entirely covered by federal depository insurance or by collateral equal to at least 105% of the deposits. For deposits that were collateralized, the securities were in accordance with the Texas Public Funds Collateral Act.

Investments

The BTU investment program is guided by Texas state laws, by various City ordinances, and by City of Bryan investment policy which prescribes how the Rural Electric System will operate its investment program in accordance with applicable laws and regulations.

The City’s policy, which was adopted on August 25, 2015 for the fiscal year ending September 30, 2016, sets forth (1) the basic principles governing the investment of funds; (2) the objectives of the investment program; and (3) the authority, responsibilities, limitations, documentation, and requirements to be used in the administration and operation of the investment program.

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

Investments authorized by the investment policy are those approved by the revised State of Texas Public Funds Investment Act, Chapter 2256. These investments include the following:

- a. Direct obligations of the United States government or its agencies and instrumentalities;
- b. Debentures or discount notes issued by, guaranteed by, or for which the credit of any Federal Agencies and Instrumentalities is pledged for payment;
- c. Direct obligations of the State of Texas or its agencies;
- d. Bonds or other obligations, the principal and interest of which is guaranteed by the full faith and credit of the United States;
- e. Certificates of Deposit issued by state and national banks within the state of Texas that are secured by obligations qualified as acceptable collateral;
- f. Bankers Acceptances eligible for discounting with the Federal Reserve maturing within 90 days;
- g. Commercial Paper with a stated maturity of 180 days or less from the date of issuance that is rated not less than A-1, P-1, F-1 or its equivalent;
- h. Fully collateralized repurchase agreements having a defined termination date of 90 days or less, secured by qualified obligations, pledged with a third party, and placed through a primary government securities dealer as defined by the Federal Reserve, or a bank domiciled in Texas;
- i. Money Market Mutual Funds that are SEC registered no-load funds with dollar-weighted average portfolio maturity of 90 days or less;
- j. Local government investment pools rated no lower than AAA or AAA-m from at least one nationally recognized rating agency;
- k. Hedging contracts and related security insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations;
- l. Reverse repurchase agreements are allowed only if the term does not exceed 90 days after delivery, and money received is used to acquire additional authorized investments with a maturity date not to exceed the expiration date stated in the agreement.

The City of Bryan's investment policy prohibits the substitution of collateral on repurchase agreements without prior approval of the City.

The fair market value of the Rural Electric System's cash, cash equivalents and investments at September 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Demand deposits	\$ 15,176,965	\$ 6,167,861
Investments in agency securities	2,001,290	2,003,860
Total	\$ 17,178,255	\$ 8,171,721

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

The Rural Electric System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72 provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The Rural Electric System has recurring fair value measurements as presented in the table below. The investment balances at September 30, 2016 are as follows:

	<b>Fair Value Measurements</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Value at FYE</b>	<b>Inputs</b>	<b>Inputs</b>	<b>Inputs</b>
U.S. Agency Bonds	\$ 2,001,290	\$ -	\$ 2,001,290
Total	<u>\$ 2,001,290</u>	<u>\$ -</u>	<u>\$ 2,001,290</u>

The investment balances at September 30, 2015 are as follows:

	<b>Fair Value Measurements</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Value at FYE</b>	<b>Inputs</b>	<b>Inputs</b>	<b>Inputs</b>
U.S. Agency Bonds	\$ 2,003,860	\$ -	\$ 2,003,860
Total	<u>\$ 2,003,860</u>	<u>\$ -</u>	<u>\$ 2,003,860</u>

U.S. Government Agency Securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

In accordance with GASB Statement No. 40, additional disclosures are provided below that address investment exposure to interest rate risk and credit risk including custodial credit risk and concentrations of credit risk. Because the Rural Electric System does not hold foreign investments, foreign currency risk is not discussed.

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

As of September 30, 2016, the Rural Electric System had the following investments:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>Greater Than 5</u>
Investments in agency securities	\$ 2,001,290	\$ 1,000,950	\$ 1,000,340	\$ -
Total fair value	<u>\$ 2,001,290</u>	<u>\$ 1,000,950</u>	<u>\$ 1,000,340</u>	<u>\$ -</u>

*Interest rate risk* – As a means of limiting its exposure to fair value losses arising from rising interest rates, BTU’s investment policy limits investments in securities of more than five years, unless matched by a specific cash flow. Additionally, in accordance with its investment policy BTU manages its exposure to interest rate risk by limiting its investments to those held to maturity.

*Credit Risk* – As described above, it is BTU’s policy to limit its investments to high grade instruments including obligations of the United States or its agencies.

*Custodial Credit Risk* – For deposits, custodial credit risk is the risk that in an event of a bank failure, the government’s deposits may not be returned to it. Demand deposits held in BTU’s name are required to be collateralized with securities equal to at least 105% of deposits held in a custodian bank, or be covered by federal depository insurance. For investments, this is the risk that in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. BTU’s investment policy requires that all security transactions be conducted on a delivery versus payment basis and that all securities be held by a third party custodian and evidenced by safekeeping receipts.

*Concentration of Credit Risk* – BTU’s investment policy places some limits on the amount that may be invested in any one issuer. Investments in any single money market fund or investment pool shall never exceed ten percent of the total assets of the money market fund or pool.

**Restricted Cash and Investments**

In 2016, cash and investments of \$17.2 million exceeded amounts required to be restricted by \$6.3 million. Amounts required to be restricted at September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Debt service	\$ 393,454	\$ 247,576
Debt reserve	311,042	311,042
Bond funds for construction	8,793,251	732,749
Customer deposits	<u>1,403,385</u>	<u>1,021,128</u>
Restricted cash and investments	<u>\$ 10,901,132</u>	<u>\$ 2,312,495</u>

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

3. Capital Assets

General Description – Assets reflected in plant-in-service include distribution facilities.

Impairments – BTU annually evaluates capital assets as required by GASB Statement No. 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The statement provides guidance for determining if any assets have been impaired and for calculating the appropriate write-downs in value for any assets found to be impaired. An internal company-wide review of capital assets, in accordance with GASB 42, concluded that the Rural Electric System had no impaired capital assets at September 30, 2016.

Capital asset activity for the fiscal year ended September 30, 2016 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 111,483	\$ -	\$ -	\$ 111,483
Construction in Progress	3,492,202	6,918,792	9,367,965	1,043,029
Total capital assets, not being depreciated	3,603,685	6,918,792	9,367,965	1,154,512
Capital assets, being depreciated:				
Distribution Plant	81,654,269	9,360,465	117,608	90,897,126
General Plant	6,978,884	1,708,153	-	8,687,037
Total capital assets, being depreciated	88,633,153	11,068,618	117,608	99,584,163
Less accumulated depreciation for:				
Distribution Plant	27,256,971	2,618,320	584,320	29,290,971
General Plant	564,198	263,355	-	827,553
Total accumulated depreciation	27,821,169	2,881,675	584,320	30,118,524
Total capital assets, being depreciated, net	60,811,984	8,186,944	(466,712)	69,465,639
Total capital assets, net	<u>\$ 64,415,669</u>	<u>\$ 15,105,736</u>	<u>\$ 8,901,253</u>	<u>\$70,620,151</u>

Depreciation expense for the fiscal year ended September 30, 2016 was \$2,640,488, net of amortization of the deferred regulatory liability of \$241,187. Depreciation expense for the fiscal year ended September 30, 2015 was \$2,452,264, net of amortization of the deferred regulatory liability of \$195,578.

**Bryan Texas Utilities**  
**Rural Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

4. Long-Term Debt

The City reserves the right at any time to merge the City Electric System and Rural Electric System into a single operating electric utility system. The merger of the Rural Electric System would not have an adverse impact on bondholders.

For the fiscal year ended September 30, 2016, the City of Bryan issued revenue refunding and improvement bonds dated July 13, 2016 ("2016 Revenue Bonds") totaling \$15,770,000 for the Rural Electric System. The 2016 Revenue Bonds mature serially beginning July 1, 2017, through July 1, 2041, with coupon rates ranging from 2.000% to 5.000%. The proceeds from the sale of the 2016 Revenue Bonds are restricted to acquisition or construction of improvements, additions, or extensions to the Rural Electric System; capital assets, facilities, and equipment incident and related to the operation, maintenance, or administration of the Rural Electric System; and refunding portions of Rural Electric System's outstanding bonds for debt service savings. Proceeds from the sale of the bonds were used to refund \$4,845,000 of the Series 2008 revenue bonds. The refunding represented debt service savings of \$880,520, and a net present value benefit savings of \$696,190.

The Rural Electric System did not issue debt in the fiscal year ended September 30, 2015.

In the fiscal year-ended 2016, the Rural Electric System defeased certain outstanding revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Rural Electric System's financial statements. As of September 30, 2016, the Rural Electric System had outstanding revenue bonds totaling \$4,845,000 which were considered defeased.

At September 30, 2016, there was \$22,535,000 of Rural Electric System long-term debt, consisting of revenue bonds and certificates of obligation; payable from revenues of the Rural Electric System.

**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

Changes to long term debt during fiscal year 2016, including current portion are as follows:

	<b>Interest Rates (%)</b>	<b>Series Matures</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due in One Year</b>
<u>Revenue Bonds:</u>							
Series 2008	3.500 - 4.750	2034	\$ 5,220,000	\$ -	\$ 5,030,000	\$ 190,000	\$ 190,000
Series 2011	2.500 - 4.000	2021	1,925,000	-	300,000	1,625,000	305,000
Series 2016	2.000 - 5.000	2041	-	15,770,000	-	15,770,000	340,000
Total Revenue Bonds			7,145,000	15,770,000	5,330,000	17,585,000	835,000
<u>Certificates of Obligation:</u>							
Series 2013	3.000 - 4.250	2033	5,170,000	-	220,000	4,950,000	225,000
Total Certificates of Obligation			5,170,000	-	220,000	4,950,000	225,000
Total long-term debt			\$ 12,315,000	\$ 15,770,000	\$ 5,550,000	\$ 22,535,000	\$ 1,060,000

All net revenues of the Rural Electric System are pledged for the payment of debt service of the revenue bonds. Net revenues, as defined by the bond resolution include all of the revenues and expenses of the Rural Electric System other than depreciation and amortization expenses. The bond resolutions further require that the net revenues, as defined, equal at least 1.20 times the annual debt service on all revenue bonds. The Rural Electric System is in compliance with these requirements at September 30, 2016 and 2015.

Under the terms of the revenue bond covenants, the Rural Electric System is required to maintain minimum reserve fund requirements equal to approximately one year of revenue bond debt service requirements. The reserve fund requirements may be satisfied by cash, a letter of credit or an insurance policy. The reserve fund requirements for the Series 2011 Bonds are satisfied with restricted funds which are reported on Rural Electric System's Statements of Net Position as restricted for debt service. The reserve fund requirements for the Series 2008 and Series 2016 Bonds are satisfied with insurance policies. There are no reserve fund requirements for the 2013 Certificates.

In the Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended September 30, 2016 and 2015, interest expense is recorded in the amount of \$974,421 and \$497,426, respectively, and is included as a non-operating expense.

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

Debt service requirements to maturity for the Rural Electric System's revenue bonds and certificates of obligation are summarized as follows:

<b><u>Revenue Bonds</u></b>			
<b><u>Year Ending</u></b>			
<b><u>September 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2017	\$ 835,000	\$ 567,289	\$ 1,402,289
2018	800,000	606,700	1,406,700
2019	815,000	587,550	1,402,550
2020	845,000	568,000	1,413,000
2021	865,000	544,400	1,409,400
2022 - 2026	2,920,000	2,322,750	5,242,750
2027 - 2031	3,690,000	1,540,250	5,230,250
2032 - 2036	3,710,000	782,350	4,492,350
2037 - 2041	3,105,000	285,150	3,390,150
Total	<u>\$ 17,585,000</u>	<u>\$ 7,804,439</u>	<u>\$ 25,389,439</u>

<b><u>Certificates of Obligation</u></b>			
<b><u>Year Ending</u></b>			
<b><u>September 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2017	\$ 225,000	\$ 194,809	\$ 419,809
2018	230,000	188,059	418,059
2019	230,000	178,859	408,859
2020	240,000	169,659	409,659
2021	245,000	160,059	405,059
2022 - 2026	1,355,000	652,214	2,007,214
2027 - 2031	1,655,000	370,863	2,025,863
2032 - 2033	770,000	49,325	819,325
Total	<u>\$ 4,950,000</u>	<u>\$ 1,963,847</u>	<u>\$ 6,913,847</u>

<b><u>Total Debt</u></b>			
<b><u>Year Ending</u></b>			
<b><u>September 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2017	\$ 1,060,000	\$ 762,098	\$ 1,822,098
2018	1,030,000	794,759	1,824,759
2019	1,045,000	766,409	1,811,409
2020	1,085,000	737,659	1,822,659
2021	1,110,000	704,459	1,814,459
2022 - 2026	4,275,000	2,974,964	7,249,964
2027 - 2031	5,345,000	1,911,113	7,256,113
2032 - 2036	4,480,000	831,675	5,311,675
2037 - 2041	3,105,000	285,150	3,390,150
Total	<u>\$ 22,535,000</u>	<u>\$ 9,768,286</u>	<u>\$ 32,303,286</u>

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2016 and 2015

5. Risk Management

The Rural Electric System is covered for risk of losses related to general liability and worker's compensation through the City's risk management program. The City has established an Insurance Fund whereby the costs of providing claims servicing and claims payment are funded by charging a premium based upon a percentage of estimated current year payroll and management's estimate of projected current costs. For the fiscal years ended September 30, 2016 and 2015, the Rural Electric System paid the City \$122,639 and \$110,131, respectively, for participation in the City's risk management program.

6. Related Party Transactions

BTU's Rural Electric System purchases all of its energy from the City Electric System. BTU's common staff is employed by the City Electric System and is either direct billed to the Rural Electric System or is billed through the City Electric System's purchased power rates. Generally, all power supply, customer service, administrative services, and regulatory fees are billed through purchased power and regulatory charge rates, while distribution services are direct billed. Rural purchased power and regulatory charge rates are established through City ordinance. Fuel rates are adjusted monthly to reflect actual cost. For the fiscal years ended September 30, 2016 and 2015, the Rural Electric System's purchased power, fuel, and regulatory charges were the following:

	<b>FY2016</b>	<b>FY2015</b>
Purchased power cost	\$ 16,374,791	\$ 15,878,248
Fuel cost	12,948,679	14,360,247
Regulatory charges	4,508,399	3,947,680
Total	<u>\$ 33,831,869</u>	<u>\$ 34,186,175</u>

The Rural Electric System had payables to the City Electric System, as of September 30, 2016 and 2015, in the amount of \$3,672,858 and \$4,858,109 respectively.

7. Subsequent Events

On October 1, 2016, the City Electric System implemented phase three of a three phase wholesale electric rate adjustment billable to the Rural Electric System. Simultaneously, the Rural Electric System implemented an electric rate adjustment for its retail customers. Base rates have increased 9.9% over the three year phase in period.