

BRYAN TEXAS UTILITIES
Rural Electric System
Financial Statements
For the Years Ended September 30, 2008 and 2007

Bryan Texas Utilities
Rural Electric System
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For the Years Ended September 30, 2008 and 2007

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Bryan Texas Utilities
Rural Electric System
Introduction
For the Years Ended September 30, 2008 and 2007

Bryan Texas Utilities (BTU) is pleased to present the Annual Financial Report for the fiscal years ended September 30, 2008 and 2007. This report is published to provide the BTU 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. 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, all service adjacent to the City of College Station service area, 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 custody and management of BTU operations. The Bryan City Council retains authority for approval of the annual budget, rates for electric service, condemnations and approval of 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 assets, changes in net assets and cash flows of the Rural Electric System in conformity with accounting principles generally accepted in the United States of America.



Ingram, Wallis & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Audit Committee 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") as of and for the years ended September 30, 2008 and 2007, as listed in the Table of Contents. These financial statements are the responsibility of BTU's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2008 and 2007, and the changes in financial position, or cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Electric System of Bryan Texas Utilities as of September 30, 2008 and 2007, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the financial statements but is supplementary

information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise BTU's Rural Electric System financial statements. The accompanying Introduction, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Deborah, Wall: February

Bryan, Texas
January 26, 2009

Bryan Texas Utilities
Rural Electric System
Management's Discussion and Analysis
For the Years Ended September 30, 2008 and 2007
(Unaudited)

This discussion and analysis of the Rural Electric System financial performance provides an overview of financial activities for the years ended September 30, 2008 and 2007. Please read this information in conjunction with the accompanying financial analysis, the financial report, and the accompanying 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 Assets include the Rural Electric System assets and liabilities 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 Activities present information showing how the Rural Electric System's net assets changed during the years ended September 30, 2008 and 2007. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Statements of Revenues, Expenses and Changes in Net Assets 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 operations, financing and related 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 Years Ended September 30, 2008 and 2007
(Unaudited)

Financial Analysis

The following condensed financial statements are for BTU's Rural Electric System, as described in the introduction, and provide key financial data as of and for the years ended September 30, 2008 and 2007.

<u>Condensed Statements of Net Assets</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 11,417,344	\$ 11,910,245
Capital assets, net	36,231,685	31,839,677
Restricted assets	323,789	332,092
Other	<u>227,662</u>	<u>-</u>
Total assets	<u>48,200,480</u>	<u>44,082,014</u>
Current liabilities	3,118,055	7,380,566
Current liabilities payable from restricted assets	481,464	332,092
Noncurrent liabilities	<u>6,741,035</u>	<u>91,750</u>
Total liabilities	<u>10,340,554</u>	<u>7,804,408</u>
Net assets:		
Invested in capital assets	34,173,796	31,839,677
Unrestricted	<u>3,686,130</u>	<u>4,437,929</u>
Total net assets	<u>\$ 37,859,926</u>	<u>\$ 36,277,606</u>
 <u>Condensed Statements of Activities</u>		
Program revenues		
Charges for services	\$ 28,975,229	\$ 24,991,627
General revenues		
Investment earnings	<u>239,229</u>	<u>383,439</u>
Total revenues	29,214,458	25,375,066
Program expenses	<u>27,632,138</u>	<u>23,150,766</u>
Change in net assets	1,582,320	2,224,300
Net assets, beginning of period	<u>36,277,606</u>	<u>34,053,306</u>
Net assets, end of period	<u>\$ 37,859,926</u>	<u>\$ 36,277,606</u>

Financial Highlights

- Rural Electric System retail customer base totaled 14,513 and 13,923 customers at September 30, 2008 and 2007, respectively, an increase of 4.2%.
- The retail energy sales were 300,138 MWH's and 275,764 MWH's during the fiscal years ended September 30, 2008 and 2007, respectively, an increase of 8.8%, due primarily to customer growth and mild weather during the year ended September 30, 2007.
- Operating revenues for fiscal years ended September 30, 2008 and 2007 were \$28,975,229 and \$24,991,627, respectively, an increase of 15.9%. The increase is primarily attributable to greater base revenues of \$708,985 due to higher sales as described above, and to higher fuel revenues of \$3,267,259 due to higher sales and higher billed fuel rates.
- Operating expenses for the fiscal years ended September 30, 2008 and 2007 were \$26,118,134 and \$21,889,442, respectively, an increase of 19.3%. The increase was primarily due to higher purchased power costs in 2008.
- Net assets for the fiscal years ended September 30, 2008 and 2007 were \$37,859,926 and \$36,277,606, respectively. The increase of 4.4% was the result of continual customer growth and related expansion of the distribution system.

Capital Assets

The Rural Electric System net utility plant was \$36,231,685 and \$31,839,677 for the fiscal years ended September 30, 2008 and 2007, respectively, an increase of 13.8%. The increase in capital assets is primarily the result of construction expenditures supporting new customer growth.

Long-Term Debt

In 2008, the Rural Electric System issued revenue bonds dated April 15, 2008, totaling \$6,295,000 and maturing serially on July 1, 2009, through July 1, 2034, with yields ranging from 2.22% to 4.92%. Proceeds of the 2008 bond issue are restricted to the construction of distribution facilities and to pay bond costs.

Budgetary Highlights

The primary variance between the original budget and actual expenditures affecting Net Assets for the fiscal years 2008 and 2007 was interest expense on 2008 debt issuances.

General Trends and Significant Events

- The economy in the local area continues to grow, and the service area supplied by the Rural Electric System is positioned for continued customer growth, especially in new subdivisions south of the City of College Station service area.
- For the fiscal year ending September 30, 2009, the budget is \$28,459,623 for electric operations and maintenance expenses and \$3,466,000 for capital expenditures to continue the expansion of the distribution system in response to customer growth.

Group Managers:

Joe Hegwood
Gary Miller
Kean Register
Roy Trotter

General Manager:

Dan Wilkerson

Bryan Texas Utilities
Rural Electric System
Statements of Net Assets
For the Years Ended September 30, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 5,229,260	\$ 1,973,572
Investments	-	4,999,160
Account receivable	3,285,072	3,065,681
Less allowance for uncollectible accounts	(194,066)	(155,786)
Under recovery of fuel	<u>3,097,078</u>	<u>2,027,618</u>
Total current assets	<u>11,417,344</u>	<u>11,910,245</u>
Noncurrent assets:		
Restricted cash and cash equivalents	323,789	332,092
Capital assets	52,820,363	47,175,659
Less accumulated depreciation	(16,588,678)	(15,335,982)
Unamortized bond issuance expenses	<u>227,662</u>	<u>-</u>
Total noncurrent assets	<u>36,783,136</u>	<u>32,171,769</u>
Total assets	<u>\$ 48,200,480</u>	<u>\$ 44,082,014</u>

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

Bryan Texas Utilities
Rural Electric System
Statements of Net Assets - Continued
For the Years Ended September 30, 2008 and 2007

<u>Liabilities</u>	<u>2008</u>	<u>2007</u>
Current liabilities:		
Accounts payable	\$ 108,034	\$ 361,916
Accrued liabilities	100,172	57,912
Due to other funds	2,879,210	6,141,652
Deferred credits and other liabilities	30,639	819,086
Total current liabilities	3,118,055	7,380,566
Current liabilities payable from restricted assets:		
Accrued Interest	67,675	-
Revenue bonds – Current	90,000	-
Customer deposits	323,789	332,092
Total current liabilities payable from restricted assets	481,464	332,092
Noncurrent liabilities:		
Revenue bonds payable	6,205,000	-
Bond discounts	(59,069)	-
Accrued vacation pay	63,013	37,310
Deferred credits and other liabilities	532,091	54,440
Total noncurrent liabilities	6,741,035	91,750
Total liabilities	10,340,554	7,804,408
<u>Net Assets</u>		
Net Assets:		
Invested in capital assets, net of related debt	34,173,796	31,839,677
Unrestricted	3,686,130	4,437,929
Total net assets	\$ 37,859,926	\$ 36,277,606

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

Bryan Texas Utilities
Rural Electric System
Statements of Activities
For the Years Ended September 30, 2008 and 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>2008 Net (Expense) Revenue and Changes in Net Assets</u>	<u>2007 Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Business-type Activities</u>	<u>Business-type Activities</u>
Business-type activities:				
Electric	\$ 27,632,138	\$ 28,975,229	\$ 1,343,091	\$ 1,840,861
Total	<u>\$ 27,632,138</u>	<u>\$ 28,975,229</u>	<u>1,343,091</u>	<u>1,840,861</u>
General revenues:				
Unrestricted investment earnings			<u>239,229</u>	<u>383,439</u>
Total general revenues and transfers			<u>239,229</u>	<u>383,439</u>
		Change in net assets	1,582,320	2,224,300
		Net assets at beginning of year	<u>36,277,606</u>	<u>34,053,306</u>
		Net assets at end of year	<u>\$ 37,859,926</u>	<u>\$ 36,277,606</u>

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 Assets
For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Electrical system	\$ 28,975,229	\$ 24,991,627
Total operating revenues	<u>28,975,229</u>	<u>24,991,627</u>
Operating expenses:		
Personnel services	397,065	310,698
Electric operations	25,089,708	21,120,275
Maintenance	442,393	314,367
General and administrative	188,968	144,102
Total operating expenses before depreciation	<u>26,118,134</u>	<u>21,889,442</u>
Operating income before depreciation	2,857,095	3,102,185
Depreciation	<u>1,411,649</u>	<u>1,261,324</u>
Operating income	<u>1,445,446</u>	<u>1,840,861</u>
Non-operating revenues (expenses):		
Investment income	239,229	383,439
Interest expense	(102,355)	-
Total non-operating revenues (expenses)	<u>136,874</u>	<u>383,439</u>
Increase in net assets	1,582,320	2,224,300
Net assets, beginning of period	<u>36,277,606</u>	<u>34,053,306</u>
Net assets, end of period	<u>\$ 37,859,926</u>	<u>\$ 36,277,606</u>

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

Bryan Texas Utilities
Rural Electric System
Statements of Cash Flows
For the Years Ended September 30, 2008 and 2007

<u>Cash flows from operating activities</u>	<u>2008</u>	<u>2007</u>
Receipts from customers	\$ 28,708,188	\$ 25,127,633
Payments to suppliers	(30,099,386)	(19,443,834)
Payments to employees	(329,102)	(309,450)
	<hr/>	<hr/>
Net cash (used) provided by operating activities	(1,720,300)	5,374,349
	<hr/>	<hr/>
<u>Cash flows from capital and related financing activities</u>		
Purchases of capital assets	(6,239,689)	(5,411,764)
Proceeds from capital debt	6,003,666	-
Interest paid on capital debt	(34,680)	-
	<hr/>	<hr/>
Net cash used by capital and related financing activities	(270,703)	(5,411,764)
	<hr/>	<hr/>
<u>Cash flows from investing activities</u>		
Proceeds from sales of investments	8,013,946	-
Purchase of investments	(3,021,048)	-
Investment earnings	245,490	385,214
	<hr/>	<hr/>
Net cash provided by investing activities	5,238,388	385,214
	<hr/>	<hr/>
Net increase in cash and cash equivalents	3,247,385	347,799
Balances-beginning of the year	2,305,664	1,957,865
	<hr/>	<hr/>
Balances-end of the year	\$ 5,553,049	\$ 2,305,664
	<hr/> <hr/>	<hr/> <hr/>

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

Bryan Texas Utilities
Rural Electric System
Statements of Cash Flows - continued
For the Years Ended September 30, 2008 and 2007

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

	<u>2008</u>	<u>2007</u>
Operating income	\$ 1,445,446	\$ 1,840,861
Adjustments to reconcile operating income to net cash (used) provided by operating activities		
Depreciation	1,411,649	1,261,324
Bad debts	77,628	52,378
Amortization	4,602	-
Change in assets and liabilities:		
Accounts receivable	(258,738)	110,733
Under recovered fuel	(1,069,460)	(1,424,679)
Accounts payable	(128,645)	92,431
Accrued liabilities	42,260	12,431
Customer deposits	(8,303)	25,273
Due to other funds	(3,262,442)	3,414,780
Accrued vacation	25,703	(11,183)
Net cash (used) provided by operating activities	\$ (1,720,300)	\$ 5,374,349

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

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements
September 30, 2008 and 2007

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.

Government-wide and Fund Financial Statements - Government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report all of the non-fiduciary activities of BTU’s Rural Electric System.

The government-wide financial statements and the fund financial statements for BTU (a proprietary fund) are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities (whether current or noncurrent) are included on the statement of net assets. The operating statements present increases (revenues) and decreases (expenses) in net total assets. 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 activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function.

The statement of revenues, expenses and changes in net assets 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 BTU 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.

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

1. Summary of Significant Accounting Policies - continued

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. BTU prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, BTU has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB pronouncements. BTU has elected not to follow FASB guidance issued subsequent to this date.

Implementation of New Accounting Principles - For the fiscal year ended September 30, 2008, BTU adopted the following GASB pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement establishes additional guidance for the financial reporting of other postemployment benefits (“OPEB”) plans. It provides standards for the recognition, measurement, display of OPEB costs and the related balance sheet items. Disclosure requirements have been incorporated into Note 6 – Post Employment Benefits Other Than Pension Benefits.
- GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This statement establishes more extensive disclosure requirements for pension plans. Employer disclosure requirements have been incorporated into Note 5 – Retirement Plan. There was no additional impact to the financial statements as a result of this GASB statement.

For the fiscal year ended September 30, 2007, GASB issued no pronouncements applicable to BTU financial reporting.

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 and liabilities 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.

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

1. Summary of Significant Accounting Policies - continued

Utility Revenues and Fuel Recovery - Customers are billed on the basis of monthly cycle billings. At year end, the Rural Electric System accrues estimated unbilled revenues (excluding fuel). The Rural Electric System is allowed to recover fuel and 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. For the fiscal years ended September 30, 2008 and 2007, the Rural Electric System accrued \$1,069,460 and \$1,424,679 respectively for under recovered fuel expense resulting in balances of \$3,097,078 and \$2,027,618 as of September 30, 2008 and 2007 respectively.

Capital Assets - Capital assets are stated at the historical cost, net of contributions from third parties (principally developers). 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. 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. Depreciation is recorded on a straight-line basis over estimated service lives ranging from 5 to 40 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 - Bond issuance expenses are amortized on a straight-line basis over the period of the related maturities, which approximates the interest method.

Accrued Vacation Pay - Employees earn vacation pay at rates of 10 to 25 days per year and may accumulate up to a maximum of 10 to 25 days, depending on their length of employment. Upon termination, the respective employees are paid for any unused accumulated vacation pay. The Rural Electric System accrues vacation pay when the liability is incurred.

Reclassifications - Certain reclassifications have been made to the prior period's financial statements in order to conform them to the classification used in the current year.

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 or is invested in permissible securities pursuant to BTU's investment policy. Investments are stated at fair value.

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

2. Cash and Investments - continued

Deposits

The Rural Electric System demand deposits for the fiscal years ended 2008 were held at Citibank, N.A. and in 2007 deposits were held at First National Bank of Bryan/College Station. These deposits were entirely covered by federal depository insurance or by collateral equal to at least 102% 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 BTU's investment policy which prescribes how the City Electric System will operate its investment program in accordance with applicable laws and regulations. This policy further 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.

Investments authorized by the investment policy are those approved by the revised State of Texas Public Funds Investment Act of 1997 and the Texas Public Funds Collateral Act of 1989. These investments include the following:

- a. Obligations of the United States or its agencies and instrumentalities;
- b. Direct obligations of the State of Texas or its agencies;
- c. Other obligations, the principal of and interest on which is unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities;
- d. Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
- e. Certificates of deposit issued by state and national banks domiciled in Texas that are secured by obligations qualified as acceptable collateral;
- f. Certificates of deposit issued by savings and loan associations domiciled in Texas that are secured by obligations qualified as acceptable collateral;
- g. Prime domestic bankers' acceptances;
- h. 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 or its equivalent;

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

2. Cash and Investments - continued

Investments - continued

- i. Fully collateralized repurchase agreements that have a defined termination date of 90 days or less, secured by qualification 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;
- j. Money-market mutual funds that are SEC registered no-load funds with a maximum stated maturity of 13 months and dollar-weighted average stated maturity of no more than 90 days;
- k. AAA-rated local government investment pools.
- l. Hedging contracts and related security insurance agreements in relation to BTU fuel and energy supplies to protect against loss due to price fluctuations.

Collateralized Mortgage Obligations (“CMO’s”) and other derivatives such as inverse floaters and other mortgage-backed securities that pay only interest or principal portion of the mortgage payment are not authorized BTU investments.

The Rural Electric System’s cash, cash equivalents and investments are summarized as follows:

	<u>2008</u>	<u>2007</u>
Demand deposits	\$ 214,287	\$ 2,305,664
Government pool	5,338,762	-
United States agencies	-	4,999,160
Total	<u>\$ 5,553,049</u>	<u>\$ 7,304,824</u>

The Rural Electric System’s investment in a government pool reflects deposits in TexSTAR. TexSTAR is a local government investment pool created and jointly managed by First Southwest Asset Management, Inc. and JPMorgan Chase Bank to invest funds on behalf of Texas political subdivisions. The pool is not managed by the Rural Electric System and the investment in the pool is stated at cost which approximates fair value.

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 BTU does not hold foreign investments, foreign currency risk is not discussed.

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

2. Cash and Investments - continued

As of September 30, 2008, BTU 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>
Government pool	\$ 5,338,762	\$ 5,338,762	\$ -	\$ -
Total fair value	<u>\$ 5,338,762</u>	<u>\$ 5,338,762</u>	<u>\$ -</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 investment to those held to maturity.

Credit Risk – As described above, it is BTU’s policy to limit its investment 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 102% 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 2008, cash and investments of \$5.6 million exceeded amounts required to be restricted by \$5.3 million. Total restricted funds consisted of \$323,789 and \$332,092 as of September 30, 2008 and 2007 respectively.

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

3. Capital Assets

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

Impairments – As discussed in Note 1, BTU adopted GASB Statement No. 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* in 2006. 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 Statement No. 42, concluded that BTU had no impaired capital assets at September 30, 2008.

Capital asset activity for the year ended September 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 111,483	\$ -	\$ -	\$ 111,483
Construction in progress	2,094,037	5,606,311	5,729,463	1,970,885
Total capital assets, not being depreciated	2,205,520	5,606,311	5,729,463	2,082,368
Capital assets, being depreciated:				
Distribution plant	43,968,654	5,806,460	58,359	49,716,755
General plant	1,001,485	19,755	-	1,021,240
Total capital assets, being depreciated	44,970,139	5,826,215	58,359	50,737,995
Less accumulated depreciation for:				
Distribution plant	14,544,369	1,391,837	158,826	15,777,380
General plant	791,613	19,812	127	811,298
Total accumulated depreciation	15,335,982	1,411,649	158,953	16,588,678
Total capital assets, being depreciated, net	29,634,157	4,414,566	(100,594)	34,149,317
Total capital assets, net	\$ 31,839,677	\$ 10,020,877	\$ 5,628,869	\$ 36,231,685

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 the bondholders.

In 2008, the Rural Electric System issued revenue bonds dated April 15, 2008, totaling \$6,295,000 and maturing serially on July 1, 2009, through July 1, 2034, with yields ranging from 2.22% to 4.92%. Proceeds of the 2008 bond issue are restricted to the construction of distribution facilities and to pay bond costs. At September 30, 2008, there were \$6,295,000 of Rural Electric System revenue bonds outstanding payable from revenues of the Rural Electric System.

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

4. Long-Term Debt - continued

The Rural Electric System revenue bonds outstanding are summarized as follows:

Series 2008 Bonds

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Amount</u>	<u>Yield</u>
2009	\$ 90,000	\$ 327,848	2.220%
2010	150,000	267,550	2.440%
2011	155,000	262,300	2.700%
2012	160,000	256,875	2.940%
2013	165,000	251,275	3.900%
2014-2018	930,000	1,163,550	3.270% - 3.840%
2019-2023	1,125,000	967,738	4.060% - 4.480%
2024-2028	1,385,000	702,219	4.570% - 4.800%
2029-2033	1,735,000	350,076	4.860% - 4.920%
2034	400,000	19,000	4.920%
	<u>\$ 6,295,000</u>	<u>\$ 4,568,431</u>	

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 average annual debt service on all revenue bonds. The Rural Electric System is in compliance with these requirements, at September 30, 2008.

Under the terms of the bond covenants, Rural Electric System is required to maintain minimum reserve fund requirements equal to approximately one year of 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 2008 Bonds are satisfied with insurance policies.

Long-term debt activity for the year ended September 30, 2008 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds - Series 2008	\$ -	6,295,000	-	6,295,000	\$ 90,000
Totals	\$ -	6,295,000	-	6,295,000	\$ 90,000

In the Statement of Activities for the years ended September 30, 2008 and 2007, interest expense in the amount of \$102,355 and \$0, respectively, is included as a direct function expense.

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

5. Retirement Plan

BTU is an integral part of the City, and as such, provides pension benefits for all its full-time employees through the City retirement plan. Separate information regarding BTU is not available. The following covers the City's retirement plan as a whole.

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 827 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is 7%, and the City matching percent is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his / her retirement becomes effective. The prior service contribution rate

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

5. Retirement Plan - continued

amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. The projected unit credit actuarial cost method is used to determine the City contribution rate. Employees and the City make contributions monthly.

Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2007 valuation is effective for rates beginning January 2009).

Actuarial assumptions are as follows:

Actuarial valuation date	12/31/2005	12/31/2006	12/31/2007
Actuarial cost method	----- Unit Credit -----		Projected Unit Credit
Amortization method	----- Level Percentage of Payroll -----		
Remaining amortization period	----- 25 years – open -----		30 years - closed
Asset valuation method	----- Amortized cost -----		
Actuarial assumptions:			
Investment return	7.0%	7.0%	7.0%
Projected salary increased	0.0%	0.0%	Varies by age & service
Included inflation rate	3.5%	3.5%	3.0%
Cost-of-living adjustments	0.0%	0.0%	2.1% (3.0% CPI)

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date, Dec. 31	<u>2005</u>	<u>2006</u>	<u>2007</u>
1. Prior Service Liability			
a. Present Members			\$ 31,369,479
b. Annuitants			24,623,906
2. Current Service Liability			<u>92,303,970</u>
3. Total Actuarial Value of Liabilities	\$ 113,740,747	\$ 118,752,796	\$ 148,297,355
4. Actuarial Value of Assets	<u>85,259,236</u>	<u>87,895,438</u>	<u>90,418,211</u>
5. Unfunded actuarial accrued liability: (3) – (4)	\$ 28,481,511	\$ 30,857,358	\$ 57,879,144
6. Funded ratio: (4) / (3)	75.0%	74.0%	61.0%
Annual Covered Payroll	33,650,168	35,240,358	37,229,136
UAAL as a Percentage of Covered Payroll	84.6%	87.6%	155.5%

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

5. Retirement Plan - continued

Historical data is as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligations at September 30
9/30/2006	\$ 4,787,919	100%	-
9/30/2007	\$ 4,791,580	100%	-
9/30/2008	\$ 5,028,310	100%	-

The City of Bryan is one of 827 municipalities having the benefit plan administered by TMRS. Each of the 827 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007, valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

Future Funding Requirements

In early December 2007 the TMRS Board of Trustees met and adopted actuarial changes that include a change from the Unit Credit actuarial cost method to the Projected Unit Credit actuarial cost method for all TMRS city plans as well as a closed amortization period of 30 years. The effect of these changes will result in an increase in city contribution rates for most Texas cities. Cities will have the option to increase their contributions over an eight-year phase-in period. These changes are intended to help the TMRS system remain well-funded, to preserve members' benefits, and to give cities a more complete picture of the cost of benefits currently adopted. While the impact of TMRS changes is not presently known, the City's contribution rate is expected to increase significantly. Tentative estimates of the City's future contribution rate show an increase from 14.53% to 19.25%. Management believes that while these possible increases will present additional challenges to the City during the budget process the City will be able to make necessary changes to mitigate any adverse financial impact to the City.

6. Post Employment Benefits Other Than Pension Benefits

BTU is an integral part of the City, and as such, provides post employment benefits for all its full-time employees through the City benefit plan. The following covers the City's post employment benefit plan as a whole, unless noted otherwise.

Effective January 1, 1991, by action of the Bryan City Council, the City began offering post-retirement health care benefits to employees under the City of Bryan Retiree Health Care Plan. Effective January 1, 1993, retiree spouses were granted eligibility for benefits. Dependents were granted eligibility effective January 1, 1994. The retiree is responsible for paying the premiums, and coverage can continue for life. Retirees must qualify for service

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

6. Post Employment Benefits Other Than Pension Benefits - continued

retirement under the City's retirement plan, and must elect to continue coverage under this other post employment benefit(OPEB) plan immediately upon retirement. This plan is a single employer defined benefit OPEB plan whose operations are included in the financial results of the City of Bryan Texas. A copy of this report may be obtained by writing to City of Bryan, 300 South Texas Ave., Bryan, Texas 77803.

The City reserves the right to modify premium amounts, to modify eligibility requirements and to modify or discontinue retiree health benefits. Expenses are recognized as retirees submit claims. Retirees are reimbursed at the same levels as active employees. In the years ended September 30, 2008 and 2007, retirees paid \$370,493 and \$291,461 in premiums and \$873,453 and \$985,492 in claims were paid for post-retirement health care and administrative charges, respectively. As of September 30, 2008, the City has 28 retirees, 25 retirees and spouses, 10 retirees and families and 9 retirees and child(ren) participating in the health plan, out of the 284 employees eligible to participate upon retirement. As of September 30, 2007, the City had 25 retirees, 18 retirees and spouses, 8 retirees and families and 7 retirees and child(ren) participating in the health plan, out of the 255 employees eligible to participate upon retirement.

The City also provides health benefits as required by the Federal Government under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"). COBRA requires employers that sponsor group health plans to provide continuation of group coverage to employees and their dependents under certain circumstances where coverage would otherwise end. Terminated employees who qualify under COBRA pay premium costs for themselves and dependents.

Expenses are recognized as claims are submitted. COBRA participants are reimbursed at the same levels as active employees. In the years ended September 30, 2008 and 2007 participants paid premiums of \$17,998 and \$22,121, and incurred claims and administrative expenses of \$113,394 and \$170,345, respectively. As of September 30, 2008 and 2007, the City had four COBRA participants.

Plan Description

The City's health care plan includes medical, dental, and prescription coverage. Retiree health plan coverage is the same as coverage provided to active City employees in accordance with the terms and conditions of the current City of Bryan Health Plan.

The City offers a fully insured optional vision plan that retirees and their dependents may purchase. To be eligible for healthcare an employee must be at least 60 years of age and have five years of TMRS service credit or have at least 20 years of service credit. In order to be eligible, employees must elect to retire at time of separation, must elect in writing to continue health benefits coverage at the time of separation, and must pay the appropriate premium. Employees terminating before normal retirement conditions are not eligible for retiree health coverage.

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

6. Post Employment Benefits Other Than Pension Benefits – continued

Employees who terminate employment are not eligible for retiree health coverage. Retiring employees who do not elect in writing to continue health benefits coverage at the time of separation are not eligible for retiree health coverage.

Survivors of employees who die while actively employed are not eligible for retiree health coverage. However, surviving spouses and dependents of Texas law enforcement officers killed in the line of duty are entitled to purchase continued health insurance benefits. The surviving spouse is entitled to continue to purchase health insurance coverage until the earlier of: (1) the date the surviving spouse remarries; (2) the date the surviving spouse becomes eligible for group health insurance through another employer; or (3) the date the surviving spouse becomes eligible for federal Medicare benefits. Surviving dependent minor children are entitled to continue health insurance coverage until the dependent (1) reaches the age of 21 years; or (2) becomes eligible for group health insurance through another employer. Eligible survivors are entitled to purchase the continued coverage at the group rate for that coverage that exists at the time of payment.

Employees who retire under a disability retirement are not eligible for retiree health coverage. Eligible retirees may continue health insurance benefits for eligible spouses and dependents covered at the time of retirement. A dependent not covered under the plan at this time is not eligible for coverage. If the retiree elects to continue coverage for any dependent and on a subsequent date elects to discontinue coverage, the dependent is no longer eligible for coverage. Surviving spouses and dependents of deceased retired employees may continue health care coverage for up to 36 months through COBRA.

Once retiree or spouse is enrolled in Medicare, City's plan is secondary payer. Retiree is responsible for payment of any Medicare premiums. The City does not provide any cash payment in lieu of electing the City's health care plan. Retirees who do not elect to continue coverage at time of separation are not eligible to opt back in.

The City does not offer life insurance coverage for retirees or their dependents. Employees who retire are eligible to convert their group life insurance coverage to a Whole Life Policy without accidental death and dismemberment until the employee reaches age 100 or a Group Term Life with AD&D until the employee reaches age 70.

Funding Policy and Annual OPEB Cost

The City's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City had its first OPEB actuarial valuation performed for the fiscal year beginning October 1, 2007 as required by GASB. BTU's portion of the City's annual OPEB cost for the current year is as follows:

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

6. Post Employment Benefits Other Than Pension Benefits – continued

Annual required contribution	\$ 128,777
Interest on OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense) end of year	128,777
Net estimated employer contributions	(108,594)
Increase in net OPEB obligation	\$ 20,183
Net OPEB obligation – as of beginning of the year	-
Net OPEB obligation (asset) – as of end of year	\$ 20,183

Funding Status and Funding Progress

The funded status of the City’s retiree health care plan, under GASB Statement No. 45 as of September 30, 2007 is as follows:

Actuarial Valuation Date as of September 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
2007	-	\$7,898,192	\$7,898,192	0%

Under the reporting parameters, the City’s retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$7,898,192 at September 30, 2007.

Actuarial methods and assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City’s retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

6. Post Employment Benefits Other Than Pension Benefits – continued

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City’s employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

Investment rate of return	4.5%, net of expenses
Medical cost increases	10.0% for 2008, decreasing to 4.5% after 2018
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of pay

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City’s retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

7. 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, 2008 and 2007, the Rural Electric System paid the City \$80,825 and \$74,499 respectively for participation in the City’s risk management program.

8. Deferred Compensation Plan

The Rural Electric System employees participate in the City’s deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, as amended, is available to all employees and permits them to defer a portion of the salary until future years. The plan funds are not available to employees until termination, retirement, death or emergency.

9. Employee Benefits

BTU is an integral part of the City, and as such, provides employee health benefits for all its full-time employees through the City health benefit plan. Separate information regarding BTU is not available. The following covers the City’s health benefit plan as a whole.

Bryan Texas Utilities
Rural Electric System
Notes to Financial Statements - continued
September 30, 2008 and 2007

9. Employee Benefits - continued

The City established the Employee Benefits Trust Fund effective October 1, 1986, covering health benefits for eligible employees. At that time the Bryan City Council approved a formal trust agreement establishing the Fund. Employee premium costs are shared by the City and the employee, while dependent coverage is paid by the employee. The City's contract with its third party administrator and reinsurer sets a stop loss level per participant in the amount of \$125,000 and a maximum aggregate stop loss deductible of \$6,478,308 and \$4,861,156 for the twelve month periods ending December 31, 2008 and 2007, respectively. There were no significant reductions in insurance coverage in the current year from coverage in the prior year, nor have there been any settlements that have exceeded insurance coverage for each of the past three fiscal years.

The schedule below represents the changes in claims liabilities for the year:

	<u>2008</u>	<u>2007</u>
Beginning balance - unpaid claims	\$ 975,422	\$ 736,809
Incurred claims	5,664,099	7,250,583
Claim payments	(5,783,909)	(7,011,970)
Ending balance – unpaid claims	<u>\$ 855,612</u>	<u>\$ 975,422</u>
Amounts due in one year	\$ 855,612	\$ 975,422

10. Related Party Transactions

BTU operates the Rural Electric System which provides electric service to the immediate rural area outside the City of Bryan, extending to most of Brazos County, adjacent to the City of College Station service area, and parts of Burleson, and Robertson counties in a radius of nearly 20 miles from the City of Bryan. The Rural Electric System purchases all of its power from BTU City Electric System based on rates established through City ordinance. In 2008 and 2007, these purchases totaled \$26,101,980 and \$22,486,555, respectively.

Rural purchased power rates include the cost of electricity provided as well as most administrative support costs provided by the City Electric System. These amounts are included in Electric operations expense in the accompanying financial statements. As of the fiscal years ending September 30, 2008 and 2007 the Rural electric system had payables to the City electric system in the amount of \$2,879,210 and \$6,141,652 respectively.