



*Bryan Texas Utilities*

Rural Electric System

**Annual Financial Statements**

For the Years Ended September 30, 2009 and 2008

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**Bryan Texas Utilities**  
**Rural Electric System**  
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For the Years Ended September 30, 2009 and 2008

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**Bryan Texas Utilities  
Rural Electric System**

Introduction

For the Years Ended September 30, 2009 and 2008

Bryan Texas Utilities (BTU) is pleased to present the Annual Financial Report for the fiscal years ended September 30, 2009 and 2008. 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. 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, 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.



## 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 year ended September 30, 2009, 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 audit. The financial statements of the Rural Electric System of BTU as of and for the year ended September 30, 2008 were audited by other auditors whose report dated January 26, 2009 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 audit provides 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, 2009, and the changes in their financial position, or, cash flows for the year 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 of the City of Bryan, Texas, as of September 30, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic 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 supplementary 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 the Rural Electric System of BTU's basic financial statements. The information included in the Introduction is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

WEAVER AND TIDWELL, L.L.P.

Houston, Texas  
January 21, 2010

**Bryan Texas Utilities**  
**Rural Electric System**  
Management's Discussion and Analysis  
For the Years Ended September 30, 2009 and 2008  
(Unaudited)

This discussion and analysis of the Rural Electric System financial performance provides an overview of financial activities for the years ended September 30, 2009 and 2008. 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 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, 2009 and 2008  
(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, 2009 and 2008.

<b><u>Condensed Statements of Net Assets</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Current assets	\$ 7,368,680	\$ 7,090,108
Capital assets, net	38,006,419	36,231,685
Restricted assets	4,023,799	4,651,025
Other	342,264	227,662
Total assets	<u>49,741,162</u>	<u>48,200,480</u>
Current liabilities	3,454,387	3,118,055
Current liabilities payable from restricted assets	921,100	481,464
Noncurrent liabilities	<u>6,165,652</u>	<u>6,741,035</u>
Total liabilities	<u>10,541,139</u>	<u>10,340,554</u>
Net assets:		
Invested in capital assets	35,016,618	34,173,796
Restricted	37,500	22,450
Unrestricted	<u>4,145,905</u>	<u>3,663,680</u>
Total net assets	<u>\$ 39,200,023</u>	<u>\$ 37,859,926</u>

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

Operating revenues	\$ 30,996,152	\$ 28,975,229
Operating expenses	<u>29,431,858</u>	<u>27,529,783</u>
Operating income	1,564,294	1,445,446
Investment income	56,851	239,229
Interest expense	<u>(281,048)</u>	<u>(102,355)</u>
Change in net assets	1,340,097	1,582,320
Net assets, beginning of period	<u>37,859,926</u>	<u>36,277,606</u>
Net assets, end of period	<u>\$ 39,200,023</u>	<u>\$ 37,859,926</u>



**Bryan Texas Utilities**  
**Rural Electric System**  
Management's Discussion and Analysis - Continued  
For the Years Ended September 30, 2009 and 2008  
(Unaudited)

**Financial Highlights**

- Rural Electric System retail customer base totaled 15,116 and 14,513 customers at September 30, 2009 and 2008, respectively, an increase of 4.2%.
- Retail energy sales were 306,888 MWH's and 300,138 MWH's during the fiscal years ended September 30, 2009 and 2008, respectively, an increase of 2.2%, due primarily to customer growth during the year ended September 30, 2009.
- Operating revenues for fiscal years ended September 30, 2009 and 2008 were \$30,996,152 and \$28,975,229, respectively, an increase of 7.0%. The increase is primarily attributable to higher fuel revenues of \$1,603,583 as September 30, 2008 under-recovered fuel balances were recovered during fiscal year 2009.
- Operating expenses for the fiscal years ended September 30, 2009 and 2008 were \$29,431,858 and \$27,529,783 respectively, an increase of 6.9%. The increase was primarily due to higher fuel rates in 2009 as described above. As described in Note 1- Summary of Significant Accounting Policies, 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, which ever is appropriate.
- Net assets for the fiscal years ended September 30, 2009 and 2008 were \$39,200,023 and \$37,859,926, respectively. The increase of 3.5% was the result of continual customer growth and related expansion of the distribution system.

**Capital Assets**

The Rural Electric System net utility plant was \$38,006,419 and \$36,231,685 for the fiscal years ended September 30, 2009 and 2008, respectively, an increase of 4.9%. 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 coupon rates ranging from 3.50% to 4.75%. Proceeds of the 2008 bond issue are restricted to the construction of distribution facilities and to pay bond costs.

**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.

**Bryan Texas Utilities**  
**Rural Electric System**  
Management's Discussion and Analysis - Continued  
For the Years Ended September 30, 2009 and 2008  
(Unaudited)

**Requests for Information**

This financial report is designed to provide readers with a general overview of BTU's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Bryan Texas Utilities, P.O. Box 8000, Bryan, Texas 77805.

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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, 2009 and 2008

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 4,138,541	\$ 902,024
Account receivable	3,437,690	3,285,072
Less allowance for uncollectible accounts	(207,551)	(194,066)
Under recovered fuel	-	3,097,078
	7,368,680	7,090,108
Total current assets		
Noncurrent assets:		
Restricted cash and cash equivalents	1,001,299	4,651,025
Restricted investments	3,022,500	-
Capital assets	55,906,952	52,820,363
Less accumulated depreciation	(17,900,533)	(16,588,678)
Unamortized bond issuance expenses and other assets	342,264	227,662
	42,372,482	41,110,372
Total noncurrent assets		
	\$ 49,741,162	\$ 48,200,480
Total assets		

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, 2009 and 2008

<u>Liabilities</u>	<u>2009</u>	<u>2008</u>
Current liabilities:		
Accounts payable	\$ 246,796	\$ 108,034
Accrued liabilities	94,679	100,172
Due to other funds	2,065,751	2,879,210
Deferred credits and other liabilities	74,769	30,639
Over recovered fuel	972,392	-
Total current liabilities	3,454,387	3,118,055
Current liabilities payable from restricted assets:		
Accrued interest	66,887	67,675
Revenue bonds – current	150,000	90,000
Customer deposits	704,213	323,789
Total current liabilities payable from restricted assets	921,100	481,464
Noncurrent liabilities:		
Revenue bonds payable	6,055,000	6,205,000
Bond discounts	(56,775)	(59,069)
Accrued vacation pay	63,326	63,013
Deferred credits and other liabilities	104,101	532,091
Total noncurrent liabilities	6,165,652	6,741,035
Total liabilities	10,541,139	10,340,554
<u>Net Assets</u>		
Net Assets:		
Invested in capital assets, net of related debt	35,016,618	34,173,796
Restricted for debt service	37,500	22,450
Unrestricted	4,145,905	3,663,680
Total net assets	\$ 39,200,023	\$ 37,859,926

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Electrical system	\$ 30,996,152	\$ 28,975,229
	<u>30,996,152</u>	<u>28,975,229</u>
Operating expenses:		
Personnel services	388,139	397,065
Electric operations	26,941,707	25,089,708
Maintenance	371,173	442,393
General and administrative	188,679	188,968
Total operating expenses before depreciation	<u>27,889,698</u>	<u>26,118,134</u>
Operating income before depreciation	3,106,454	2,857,095
Depreciation	<u>1,542,160</u>	<u>1,411,649</u>
Operating income	<u>1,564,294</u>	<u>1,445,446</u>
Non-operating revenues (expenses):		
Investment income	56,851	239,229
Interest expense	(281,048)	(102,355)
Total non-operating revenues (expenses)	<u>(224,197)</u>	<u>136,874</u>
Increase in net assets	1,340,097	1,582,320
Net assets, beginning of period	<u>37,859,926</u>	<u>36,277,606</u>
Net assets, end of period	<u>\$ 39,200,023</u>	<u>\$ 37,859,926</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, 2009 and 2008

<b><u>Cash flows from operating activities</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Receipts from customers	\$ 31,046,025	\$ 28,708,188
Payments to suppliers	(23,656,331)	(30,099,386)
Payments to employees	(393,319)	(329,102)
	<hr/>	<hr/>
Net cash (used) provided by operating activities	6,996,375	(1,720,300)
	<hr/>	<hr/>
<b><u>Cash flows from capital and related financing activities</u></b>		
Purchases of capital assets	(4,075,862)	(6,239,689)
Proceeds from capital debt	-	6,003,666
Principal paid on capital debt	(90,000)	-
Interest paid on capital debt	(270,701)	(34,680)
	<hr/>	<hr/>
Net cash used by capital and related financing activities	(4,436,563)	(270,703)
	<hr/>	<hr/>
<b><u>Cash flows from investing activities</u></b>		
Proceeds from sales of investments	3,000,000	8,013,946
Purchase of investments	(6,025,847)	(3,021,048)
Investment earnings	52,826	245,490
	<hr/>	<hr/>
Net cash (used) provided by investing activities	(2,973,021)	5,238,388
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(413,209)	3,247,385
	<hr/>	<hr/>
Balances-beginning of the year	5,553,049	2,305,664
	<hr/>	<hr/>
Balances-end of the year	\$ 5,139,840	\$ 5,553,049
	<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, 2009 and 2008

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

	<u><b>2009</b></u>	<u><b>2008</b></u>
Operating income	\$ 1,564,294	\$ 1,445,446
Adjustments to reconcile operating income to net cash (used) provided by operating activities		
Depreciation	1,542,160	1,411,649
Bad debts	75,347	77,628
Change in assets and liabilities:		
Accounts receivable	(330,551)	(258,738)
Under recovered fuel	3,097,078	(1,069,460)
Accounts payable	(6,598)	(128,645)
Accrued liabilities	(5,493)	42,260
Over recovered fuel	972,392	-
Customer deposits	380,424	(8,303)
Due to other funds	(292,991)	(3,262,442)
Accrued vacation and other	313	30,305
Net cash (used) provided by operating activities	<u>\$ 6,996,375</u>	<u>\$ (1,720,300)</u>

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

**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
September 30, 2009 and 2008

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 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 Statement of Revenues, Expenses and Changes in Net Assets presents 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 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.

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 years ended September 30, 2008 and 2009, GASB issued no pronouncements applicable to BTU's Rural Electric System financial reporting.

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.



**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
September 30, 2009 and 2008

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.

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 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 year ended September 30, 2009 the Rural Electric System reflected a current liability – Over recovered fuel of \$972,392 and for the year ended September 30, 2008, the City Electric System recorded a current asset – Under recovered fuel of \$3,097,078.

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. 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 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.

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. Such reclassifications had no effect on the change in net assets as previously reported.

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 based on quoted market prices provided by the custodian.

**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
September 30, 2009 and 2008

Deposits

The Rural Electric System demand deposits for the fiscal years ended September 30, 2009 and 2008 were held at Citibank, N.A. 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 Rural 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;

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Notes to Financial Statements - continued  
September 30, 2009 and 2008

- 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>2009</u>	<u>2008</u>
Demand deposits	\$ 5,139,840	\$ 214,287
Investment in government pool	-	5,338,762
Investments in treasury securities	<u>3,022,500</u>	<u>-</u>
Total	<u>\$ 8,162,340</u>	<u>\$ 5,553,049</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.

As of September 30, 2009, 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>
Treasury securities	<u>\$ 3,022,500</u>	<u>\$ 3,022,500</u>	<u>\$ -</u>	<u>\$ -</u>
Total fair value	<u>\$ 3,022,500</u>	<u>\$ 3,022,500</u>	<u>\$ -</u>	<u>\$ -</u>

**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
September 30, 2009 and 2008

*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 2009, cash and investments of \$8.2 million exceeded amounts required to be restricted by \$4.1 million. Amounts required to be restricted at September 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Debt service	\$ 104,388	\$ 90,125
Bond series 2008 reserve	3,215,198	4,237,111
Customer deposits	<u>704,213</u>	<u>323,789</u>
Restricted cash and investments	<u>\$ 4,023,799</u>	<u>\$ 4,651,025</u>

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, 2009.

**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
September 30, 2009 and 2008

Capital asset activity for the year ended September 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 111,483	\$ -	\$ -	\$ 111,483
Construction in progress	1,970,885	3,699,693	2,659,942	3,010,636
Total capital assets, not being depreciated	2,082,368	3,699,693	2,659,942	3,122,119
Capital assets, being depreciated:				
Distribution plant	49,716,755	2,448,234	401,396	51,763,593
General plant	1,021,240	-	-	1,021,240
Total capital assets, being depreciated	50,737,995	2,448,234	401,396	52,784,833
Less accumulated depreciation for:				
Distribution plant	15,777,379	1,521,501	230,306	17,068,574
General plant	811,299	20,660	-	831,959
Total accumulated depreciation	16,588,678	1,542,161	230,306	17,900,533
Total capital assets, being depreciated, net	34,149,317	906,073	171,090	34,884,300
Total capital assets, net	\$ 36,231,685	\$ 4,605,766	\$ 2,831,032	\$ 38,006,419

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 coupon rates ranging from 3.50% to 4.75%. Proceeds of the 2008 bond issue are restricted to the construction of distribution facilities and to pay bond costs. At September 30, 2009, there were \$6,205,000 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, 2009 and 2008

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

**Series 2008 Bonds**

<b>Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2010	\$ 150,000	\$ 267,550	\$ 417,550
2011	155,000	262,300	417,300
2012	160,000	256,875	416,875
2013	165,000	251,275	416,275
2014	175,000	245,500	420,500
2015-2019	960,000	1,129,050	2,089,050
2020-2024	1,175,000	920,894	2,095,894
2025-2029	1,445,000	639,474	2,084,474
2030-2033	1,820,000	267,663	2,087,663
Total	<u>\$ 6,205,000</u>	<u>\$ 4,240,581</u>	<u>\$ 10,445,581</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, 2009.

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, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds - Series 2008	\$ 6,295,000	\$ -	\$ 90,000	6,205,000	\$ 150,000
Total	<u>\$ 6,295,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>6,205,000</u>	<u>\$ 150,000</u>

In the Statement of Revenues, Expenses and Changes in Net Assets for the years ended September 30, 2009 and 2008, interest expense in the amount of \$281,048 and \$102,355, respectively, is included as a non-operating expense.

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

Notes to Financial Statements - continued  
September 30, 2009 and 2008

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, 2009 and 2008, the Rural Electric System paid the City \$80,004 and \$80,825 respectively for participation in the City's risk management program.

6. 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. 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 ordinance. Non-fuel Rural purchased power rates were last adjusted in December 2006. Fuel rates are adjusted monthly to reflect actual cost. In 2009 and 2008, Rural purchased power totaled \$22,841,070 and \$26,101,980, respectively.

For the fiscal years ended September 30, 2009 and 2008 the Rural electric system had payables to the City Electric System in the amount of \$2,065,751 and \$2,879,210 respectively.