



Bryan Texas Utilities

Rural Electric System

Annual Financial Statements

For the Fiscal Years Ended September 30, 2013 and 2012

Bryan Texas Utilities
Rural Electric System
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For the Fiscal Years Ended September 30, 2013 and 2012

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**Bryan Texas Utilities
Rural Electric System**

Introduction

Bryan Texas Utilities (BTU) is pleased to present the Annual Financial Report for the fiscal years ended September 30, 2013 and 2012. 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, service adjacent to and including portions of the City of College Station, and parts of Burleson, and Robertson counties in a radius of nearly 20 miles from the City of Bryan.

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

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



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Rural Electric System of Bryan Texas Utilities (BTU) of the City of Bryan, Texas, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Electric System of BTU of the City of Bryan, Texas, as of September 30, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Rural Electric System of BTU, and do not purport to, and do not present fairly the financial position of the City Electric System of BTU, or the City of Bryan, Texas, as of September 30, 2013 and 2012, and the changes in their financial position or, where applicable, their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rural Electric System of BTU of the City of Bryan, Texas. The introduction section is presented for the purposes of additional analysis and is not a required part of the financial statements. This section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
December 20, 2013

**Bryan Texas Utilities
Rural Electric System**

Management's Discussion and Analysis

This discussion and analysis of the Rural Electric System financial performance provides an overview of financial activities for the years ended September 30, 2013 and 2012. 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 Position include the Rural Electric System assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for the evaluation of capital structure, liquidity, and flexibility of the Rural Electric System.

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

The Statements of Cash Flows present cash receipts, cash disbursements and net changes in cash resulting from 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 Fiscal Years Ended September 30, 2013 and 2012
(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 fiscal years ended September 30, 2013 and 2012.

<u>Condensed Statements of Net Position</u>	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Current assets	\$ 9,081,913	\$ 9,102,190
Capital assets, net	49,176,743	46,057,221
Restricted assets	9,759,115	5,635,308
Other	485,836	365,939
Total assets	68,503,607	61,160,658
Current liabilities	3,071,737	3,197,918
Current liabilities payable from restricted assets	5,072,254	5,411,206
Noncurrent liabilities	13,173,459	8,086,440
Total liabilities	21,317,450	16,695,564
Net position:		
Net investment in capital assets	40,408,674	37,779,032
Restricted	449,931	422,292
Unrestricted	6,327,552	6,263,770
Total net position	\$ 47,186,157	\$ 44,465,094

Condensed Statements of Revenues, Expenses And Changes in Net Position

	<u>FY2013</u>	<u>FY2012</u>
Operating revenues	\$ 32,257,374	\$ 31,495,841
Operating expenses	29,218,722	28,250,732
Operating income	3,038,651	3,245,109
Investment income	47,422	82,333
Interest expense	(365,010)	(352,876)
Excess before special items	2,721,063	2,974,566
Special items - loss on disposal of legacy meters	-	(2,135,132)
Change in net position	2,721,063	839,434
Net position, beginning of period	44,465,094	43,625,660
Net position, end of period	\$ 47,186,157	\$ 44,465,094

Bryan Texas Utilities
Rural Electric System
Management's Discussion and Analysis - continued
For the Fiscal Years Ended September 30, 2013 and 2012
(Unaudited)

Financial Highlights

- Rural Electric System retail customer base totaled 17,556 and 16,881 customers at September 30, 2013 and 2012, respectively, an increase of 4.0%.
- Retail energy sales were 352,828 MWh and 339,800 MWh during the fiscal years ended September 30, 2013 and 2012, respectively, an increase of 3.8%, due primarily to customer growth during the fiscal year ended September 30, 2013.
- Operating revenues for fiscal years ended September 30, 2013 and 2012 were \$32,257,374 and \$31,495,841, respectively, an increase of 2.4%. The increase is primarily attributable to higher retail sales in 2013 as described above.
- Operating expenses for the fiscal years ended September 30, 2013 and 2012 were \$29,218,722 and \$28,250,732, respectively, an increase of 3.4%. The increase was primarily due to higher purchased power expense in 2013 due to larger sales as described above.
- Net position for the fiscal years ended September 30, 2013 and 2012 were \$47,186,157 and \$44,465,094, respectively. The increase of 6.1% was the result of further expansion of the distribution system.

Capital Assets

The Rural Electric System net utility plant was \$49,176,743 and \$46,057,221 for the fiscal years ended September 30, 2013 and 2012, respectively, an increase of 6.8%. The increase in capital assets is primarily the result of construction expenditures supporting new customer growth.

Long-Term Debt

On July 23, 2013, the Rural Electric System issued certificates of obligation ("2013 Certificates") totaling \$5,600,000. The 2013 Certificates mature serially on August 15, 2014, through August 15, 2033, with coupon rates ranging from 3.00% to 4.25%. The proceeds from the sale of the 2013 Certificates are restricted to costs associated with the acquisition, construction, replacement, and repair of substations, feeders, and other distribution improvements to the Rural Electric System.

General Trends and Significant Events

The economy in the local area continues to grow. The service area supplied by the Rural Electric System is positioned for further customer growth, especially in new subdivisions south of the City of College Station service area and with increased oil and gas exploration activity in north Brazos County.

**Bryan Texas Utilities
Rural Electric System**

Management's Discussion and Analysis - continued
For the Fiscal Years Ended September 30, 2013 and 2012
(Unaudited)

Rates –

- On October 1, 2012, the City Electric System implemented phase two of a two phase wholesale electric rate adjustment billable to the Rural Electric System. Simultaneously, the Rural Electric System implemented phase two electric rates for its retail customers. The new Rural Electric System wholesale rate payable to the City Electric System reflected an overall 3.1% reduction from prior rates. The new Rural Electric System phase two rates reflect a 10.1% increase in base rates which were largely offset by a reduction in fuel rates. Overall, the new October 1, 2012 combined base and fuel retail rates reflect a 0.2% increase from phase one rates.

Automated Metering Infrastructure –

- During 2012, BTU completed the installation phase of Automated Metering Infrastructure (AMI). Over 16,000 AMI meters were installed in BTU's Rural service territory allowing remote meter readings, service turn-ons and service turn-offs. Reflected in the Statement of Revenues, Expenses and Changes in Net Position is the write off of the book values of legacy meters totaling \$2,135,132.

Subsequent Events

On October 1, 2013, the City Electric System implemented a new wholesale electric rate design billable to the Rural Electric System. Simultaneously, the Rural Electric System implemented the new electric rate structure for its retail customers. The new rate structure separates a regulatory charge from base electric rates. Beginning in October, base electric rates decreased by the same amount of the new regulatory charge, resulting in no overall initial rate impact. This separate rate structure allows for the City Electric System to more easily adjust the new regulatory charge rate to collect for increased costs associated with large statewide transmission construction projects billed through the Texas Public Utility Commission's Transmission Cost of Service Rates and for other fees assessed by regulatory bodies.

Requests for Information

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

BTU General Manager:

Gary Miller

BTU Group Managers:

Randy Trimble
David Werley

City of Bryan:

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

Bryan Texas Utilities
Rural Electric System
Statements of Net Position
At September 30, 2013 and 2012

	September 30,	
<u>Assets</u>	2013	2012
Current assets:		
Cash and cash equivalents	\$ 5,547,343	\$ 5,676,052
Accounts receivable	3,692,430	3,592,053
Less allowance for uncollectible accounts	(157,860)	(165,915)
Total current assets	9,081,913	9,102,190
Non-current assets:		
Restricted cash and cash equivalents	6,758,928	2,634,008
Restricted investments	3,000,187	3,001,300
Capital assets	72,595,596	67,540,145
Less accumulated depreciation	(23,418,853)	(21,482,924)
Unamortized bond issuance expenses and other	485,836	365,939
Total noncurrent assets	59,421,694	52,058,468
Total assets	\$ 68,503,607	\$ 61,160,658

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

**Bryan Texas Utilities
Rural Electric System**
Statements of Net Position - continued
At September 30, 2013 and 2012

	September 30,	
<u>Liabilities</u>	2013	2012
Current liabilities:		
Accounts payable	\$ 263,600	\$ 608,947
Accrued liabilities	79,393	99,443
Due to other funds	2,669,756	2,434,409
Other current liabilities	58,988	55,119
Total current liabilities	3,071,737	3,197,918
Current liabilities payable from restricted assets:		
Accrued interest	102,675	82,500
Over-recovered fuel	3,419,677	4,106,642
Revenue bonds - current portion	675,000	445,000
Customer deposits	874,902	777,064
Total current liabilities payable from restricted assets	5,072,254	5,411,206
Non-current liabilities:		
Revenue bonds payable	13,005,000	8,080,000
Bond premiums (discounts)	168,459	6,440
Total noncurrent liabilities	13,173,459	8,086,440
Total liabilities	21,317,450	16,695,564
<u>Net Position</u>		
Net investment in capital assets	40,408,674	37,779,032
Restricted for debt service	449,931	422,292
Unrestricted	6,327,552	6,263,770
Total net position	\$ 47,186,157	\$ 44,465,094

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

Bryan Texas Utilities
Rural Electric System
Statements of Revenues, Expenses
And Changes in Net Position
For the Fiscal Years Ended September 30, 2013 and 2012

	FY2013	FY2012
Operating revenues:		
Electrical system	\$ 32,257,374	\$ 31,495,841
Total operating revenues	32,257,374	31,495,841
Operating expenses:		
Personnel services	369,362	465,852
Electric operations	26,117,623	25,229,274
Maintenance	573,662	457,088
General and administrative	170,563	196,137
Depreciation	1,987,513	1,902,381
Total operating expenses	29,218,722	28,250,732
Operating income	3,038,651	3,245,109
Non-operating revenues (expenses):		
Investment income	47,422	82,333
Interest expense	(365,010)	(352,876)
Total non-operating revenues (expenses)	(317,588)	(270,543)
Income before special items	2,721,063	2,974,566
Special items - loss on disposal of legacy meters	-	(2,135,132)
Increase in net position	2,721,063	839,434
Net position, beginning of period	44,465,094	43,625,660
Net position, end of period	\$ 47,186,157	\$ 44,465,094

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

Bryan Texas Utilities
Rural Electric System
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2013 and 2012

	FY2013	FY2012
<u>Cash flows from operating activities</u>		
Receipts from customers	\$ 32,251,061	\$ 31,756,110
Payments to suppliers	(26,307,428)	(27,481,455)
Payments to employees	(389,412)	(426,396)
Net cash provided by operating activities	5,554,221	3,848,259
<u>Cash flows from capital and related financing activities</u>		
Purchases of capital assets	(6,415,953)	(7,284,124)
Proceeds from capital debt	5,652,871	-
Principal paid on capital debt	(445,000)	(420,000)
Interest paid on capital debt	(392,387)	(311,402)
Net cash used by capital and related financing activities	(1,600,469)	(8,015,526)
<u>Cash flows from investing activities</u>		
Proceeds from sales and maturities of investments	-	6,000,000
Purchases of investments	-	(6,027,188)
Interest and dividends received	42,459	73,833
Net cash provided by investing activities	42,459	46,645
Net increase (decrease) in cash and cash equivalents	3,996,211	(4,120,622)
Balance-beginning of the year	8,310,060	12,430,682
Balance-end of the year	\$ 12,306,271	\$ 8,310,060
<u>Reconciliation of ending cash balance</u>		
Cash and cash equivalents	\$ 5,547,343	\$ 5,676,052
Cash and cash equivalents – restricted	6,758,928	2,634,008
Balances-end of year	\$ 12,306,271	\$ 8,310,060

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

Bryan Texas Utilities
Rural Electric System
Statements of Cash Flows - continued
For the Fiscal Years Ended September 30, 2013 and 2012

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

	<u>FY2013</u>	<u>FY2012</u>
Operating income	\$ 3,038,651	\$ 3,245,109
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,987,513	1,902,381
Bad debts	38,598	57,398
Change in assets and liabilities:		
Accounts receivable	(104,151)	194,072
Accounts payable	(65,694)	47,659
Accrued liabilities	(20,050)	39,456
Over-recovered fuel	(686,965)	(108,915)
Customer deposits	97,838	66,197
Due to other funds	1,268,481	(1,595,098)
Net cash provided by operating activities	<u>\$ 5,554,221</u>	<u>\$ 3,848,259</u>

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

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2013 and 2012

1. Summary of Significant Accounting Policies

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

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

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

Basis of Accounting - The Rural Electric System is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Accounting records are maintained in accordance with accounting principles generally accepted in the United States of America. The Rural Electric System prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 62, BTU has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) 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, 2013, BTU's Rural Electric System adopted the following GASB pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*. This statement addresses reporting related to service concession arrangements (SCA's), which are a type of public-private or public-public partnership. The Rural Electric System does not engage in any SCA's, and as such, there was no impact on the Rural Electric System financial statements as a result of this implementation.
- GASB Statement No. 61, *The Financial Reporting Entity Omnibus*. This statement amends GASB Statements No. 14 and No. 34 and modifies certain requirements for inclusion of component units within the financial statements of governmental entities. There was no impact on the Rural Electric System's financial statements as a result of this implementation.

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

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2013 and 2012

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance from the FASB and the AICPA, issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. There was no impact on the Rural Electric System's financial statements as a result of this guidance.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources; defined as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively, which are distinct from assets and liabilities. The statement also identifies net position as the residual of all other elements presented in a statement of financial position. Other than a change in presentation, there was no impact on the Rural Electric System's financial statements from implementation of this guidance.

For the fiscal year ended September 30, 2012, GASB issued no pronouncements applicable to BTU's Rural Electric System financial reporting.

The following guidance issued by GASB is effective for the fiscal years ended 2014 or 2015, and may be applicable to the Rural Electric System:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Additionally, this statement provides reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. BTU expects that adoption of this Statement will result in the reclassification of certain items previously reported as assets or liabilities. Adoption of this statement is required for the Rural Electric System for fiscal year 2014.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting guidance related to government combinations and disposals of government operations. The term *government combinations* refer to a variety of transactions and may be mergers, acquisitions, or transfers of operations. This standard sets forth definitions of each of these transaction types and sets forth the specific accounting and reporting treatment to be given for each. The statement also provides accounting and reporting guidance for disposals of government operations that have been sold or transferred. The requirements of this statement will be applied prospectively, beginning in the period of adoption. The effect of this guidance on the Rural Electric System will be limited to its impact on recognition of potential combination and disposal transactions into which the Rural Electric System may enter in the future. Adoption of this statement is required for the Rural Electric System for the fiscal year ended September 30, 2015.

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

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2013 and 2012

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions*. This statement provides accounting and disclosure guidance for transactions in which a government entity has extended or received a financial guarantee without directly receiving equal-value consideration in exchange. This guidance requires a government entity that has extended or received a nonexchange financial guarantee to recognize a liability in certain circumstances involving the likelihood or actuality of payments being made on those guarantees. Adoption of this statement is required for the Rural Electric System for the fiscal year ended September 30, 2014.

Restricted Funds

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

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

Utility Revenues and Fuel Recovery - Customers are billed on the basis of monthly cycle billings. At fiscal year end, the Rural Electric System accrues estimated unbilled revenues (excluding fuel). The Rural Electric System is allowed to recover purchased power cost through fuel revenue rates. The difference between fuel revenues billed and fuel expense incurred is recorded as an addition or a reduction to fuel and purchased power expense, with a corresponding entry to accounts payable - over recovered fuel or accounts receivable - under recovered fuel, whichever is appropriate. At September 30, 2013 and 2012, the Rural Electric System reflected a current liability – over recovered fuel of \$3,419,677 and \$4,106,642, 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. 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.

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

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2013 and 2012

Special Items – Special items are those transactions or events within the control of management that are either unusual in nature or infrequent in occurrence. The Rural Electric System recognized as a special item the loss on disposal of assets related to switching out legacy meters for the AMI project. At the fiscal year ended September 30, 2012, the Rural Electric System reported a one-time special item loss of \$2,135,132, which represented the net book value of the existing meters removed from service, less any salvage proceeds.

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 position 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, a fee allowance, or is invested in permissible securities pursuant to BTU's investment policy. Investments are stated at fair value based on quoted market prices provided by the custodian.

Deposits

The Rural Electric System demand deposits for the fiscal years ended September 30, 2013 and 2012 were held at Citibank, N.A. These deposits were entirely covered by federal depository insurance or by collateral equal to at least 105% of the deposits. For deposits that were collateralized, the securities were in accordance with the Texas Public Funds Collateral Act.

Investments

The BTU investment program is guided by Texas state laws, by various City ordinances, and by City of Bryan investment policy which prescribes how the Rural Electric System will operate its investment program in accordance with applicable laws and regulations. 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 and the Texas Public Funds Collateral Act. Investments authorized under the policy include the following:

- a. Direct obligations of the United States government;
- b. Debentures or discount notes issued by, guaranteed by, or for which the credit of any Federal Agencies and Instrumentalities is pledged for payment;
- c. Bonds or other interest bearing obligations for which the principal and interest are guaranteed by the full faith and credit of the United States government;
- d. Certificates of Deposit, insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, in state or national banks;

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

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2013 and 2012

- e. Repurchase Agreements with a defined termination date of 90 days or less based upon U.S. Treasury securities collateralized at a minimum of 102%;
- f. Reverse repurchase agreements with a defined termination date of 90 days or less;
- g. Bankers Acceptances eligible for discounting with the Federal Reserve maturing within 90 days;
- h. Commercial Paper maturing within 180 days carrying a rating of A-1, P-1 or F-1;
- i. Money Market Mutual Funds that are registered with and regulated by the Securities and Exchange Commission, are no load with a maximum stated maturity of 13 months and dollar-weighted average stated maturity of no more than 90 days;
- j. AAA-rated local government investment pools;
- k. Direct obligations of the State of Texas and any political subdivisions thereof carrying a rating no less than AA or its equivalent.

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

	<u>FY2013</u>	<u>FY2012</u>
Demand deposits	\$ 12,306,271	\$ 8,310,060
Investments in agency securities	<u>3,000,187</u>	<u>3,001,300</u>
Total	<u><u>\$ 15,306,458</u></u>	<u><u>\$ 11,311,360</u></u>

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, 2013, BTU had the following investments:

<u>Investment Types</u>	<u>Fair Value</u>	Investment Maturity (in Years)		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>Greater Than 5</u>
Agency securities	<u>\$ 3,000,187</u>	<u>\$ 3,000,187</u>	<u>\$ -</u>	<u>\$ -</u>
Total fair value	<u><u>\$ 3,000,187</u></u>	<u><u>\$ 3,000,187</u></u>	<u><u>\$ -</u></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.

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

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2013 and 2012

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 105% of deposits held in a custodian bank, or be covered by federal depository insurance. For investments, this is the risk that in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. BTU’s investment policy requires that all security transactions be conducted on a delivery versus payment basis and that all securities be held by a third party custodian and evidenced by safekeeping receipts.

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

Restricted Cash and Investments

In 2013, cash and investments of \$15.3 million exceeded amounts required to be restricted by \$5.5 million. Amounts required to be restricted at September 30, 2013 and 2012 are as follows:

	<u>FY2013</u>	<u>FY2012</u>
Debt service	\$ 241,563	\$ 193,750
Debt reserve	311,042	311,042
Bond funds for construction	4,911,931	246,810
Over-recovered fuel	3,419,677	4,106,642
Customer deposits	<u>874,902</u>	<u>777,064</u>
Restricted cash and investments	<u>\$ 9,759,115</u>	<u>\$ 5,635,308</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, 2013.

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

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2013 and 2012

Capital asset activity for the fiscal year ended September 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 111,483	\$ -	\$ -	\$ 111,483
Construction in Progress	4,660,796	5,128,607	3,207,703	6,581,700
Total capital assets, not being depreciated	4,772,279	5,128,607	3,207,703	6,693,183
Capital assets, being depreciated:				
Distribution Plant	62,421,049	3,194,480	24,561	65,590,968
General Plant	346,817	13,223	48,595	311,445
Total capital assets, being depreciated	62,767,866	3,207,703	73,156	65,902,413
Less accumulated depreciation for:				
Distribution Plant	21,344,847	1,965,604	2,988	23,307,463
General Plant	138,077	21,908	48,595	111,390
Total accumulated depreciation	21,482,924	1,987,512	51,583	23,418,853
Total capital assets, being depreciated, net	41,284,942	1,220,191	21,573	42,483,560
Total capital assets, net	\$ 46,057,221	\$ 6,348,798	\$ 3,229,276	\$ 49,176,743

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.

On July 23, 2013, the Rural Electric System issued certificates of obligation (“2013 Certificates”) totaling \$5,600,000. The 2013 Certificates mature serially on August 15, 2014, through August 15, 2033, with coupon rates ranging from 3.00% to 4.25%. The proceeds from the sale of the 2013 Certificates are restricted to costs associated with the acquisition, construction, replacement, and repair of substations, feeders, and other distribution improvements to the Rural Electric System.

At September 30, 2013, there was \$13,680,000 of Rural Electric System long-term debt, consisting of revenue bonds and certificates of obligation; payable from revenues of the Rural Electric System.

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

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2013 and 2012

Changes to long term debt during 2013, including current portion are as follows:

	Interest Rates (%)	Series Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
<u>Revenue Bonds:</u>							
Series 2008	3.50 – 3.75	2034	\$5,740,000	\$ -	\$ 165,000	\$5,575,000	\$ 175,000
Series 2011	2.00 – 4.00	2021	2,785,000	-	280,000	2,505,000	285,000
Total Revenue Bonds			8,525,000	-	445,000	8,080,000	460,000
<u>Certificates of Obligation:</u>							
Series 2013	3.00 – 4.25	2033	-	5,600,000	-	5,600,000	215,000
Total Certificates of Obligation			-	5,600,000	-	5,600,000	215,000
Total long-term debt			\$8,525,000	\$5,600,000	\$ 445,000	\$13,680,000	\$ 675,000

All net revenues of the Rural Electric System are pledged for the payment of debt service of the revenue bonds. Net revenues, as defined by the bond resolution include all of the revenues and expenses of the Rural Electric System other than depreciation and amortization expenses. The bond resolutions further require that the net revenues, as defined, equal at least 1.20 times the average annual debt service on all revenue bonds. The Rural Electric System is in compliance with these requirements, at September 30, 2013.

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

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

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2013 and 2012

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

<u>Revenue Bonds</u>			
<u>Year Ending</u>			
<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 460,000	\$ 318,625	\$ 778,625
2015	475,000	306,800	781,800
2016	485,000	294,600	779,600
2017	495,000	280,625	775,625
2018	515,000	265,400	780,400
2019-2023	2,130,000	1,045,688	3,175,688
2024-2028	1,385,000	702,219	2,087,219
2029-2033	1,735,000	350,075	2,085,075
2034	400,000	19,000	419,000
	<u>\$ 8,080,000</u>	<u>\$3,583,032</u>	<u>\$11,663,032</u>

<u>Certificates of Obligation</u>			
<u>Year Ending</u>			
<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 215,000	\$ 210,737	\$ 425,737
2015	215,000	207,859	422,859
2016	220,000	201,409	421,409
2017	225,000	194,809	419,809
2018	230,000	188,059	418,059
2019-2023	1,230,000	798,894	2,028,894
2024-2028	1,460,000	548,934	2,008,934
2029-2033	1,805,000	233,150	2,038,150
	<u>\$ 5,600,000</u>	<u>\$2,583,851</u>	<u>\$ 8,183,851</u>

In the Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended September 30, 2013 and 2012, interest expense in the amount of 365,010 and \$352,876, respectively, is included as a non-operating expense.

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, 2013 and 2012, the Rural Electric System paid the City \$96,374 and \$98,204, respectively, for participation in the City's risk management program.

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

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2013 and 2012

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 and including portions of the City of College Station, and parts of Burleson, and Robertson counties in a radius of nearly 20 miles from the City of Bryan. 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. Fuel rates are adjusted monthly to reflect actual cost. For the fiscal years ended September 30, 2013 and 2012, the Rural Electric System's purchased power totaled \$26,702,146 and \$25,311,824, respectively, and had payables to the City Electric System in the amount of \$2,669,756 and \$2,434,409 respectively.

7. Subsequent Events

On October 1, 2013, the City Electric System implemented a new wholesale electric rate design billable to the Rural Electric System. Simultaneously, the Rural Electric System implemented the new electric rate structure for its retail customers. The new rate structure separates a regulatory charge from base electric rates. Beginning in October, base electric rates decreased by the same amount of the new regulatory charge, resulting in no overall initial rate impact. This separate rate structure allows for the City Electric System to more easily adjust the new regulatory charge rate to collect for increased costs associated with large statewide transmission construction projects billed through the Texas Public Utility Commission's Transmission Cost of Service Rates and for other fees assessed by regulatory bodies.