BRYAN TEXAS UTILITIES

BTU

THE DIFFERENCE IS YOU

Bryan Texas Utilities

<u>City Electric System</u>

Annual Financial Statements

For the Fiscal Years Ended September 30, 2014 and 2013

Bryan Texas Utilities
City Electric System
Table of Contents
For the Fiscal Years Ended September 30, 2014 and 2013

Introduction

Bryan Texas Utilities (BTU) is pleased to present its Annual Financial Report for the fiscal years ended September 30, 2014 and 2013. This report is published to provide the BTU Board of Directors (Board), the City of Bryan, the Bondholders, representatives of financial institutions, and other interested parties detailed information concerning the financial condition of BTU.

BTU is an enterprise activity of the City of Bryan, Texas. BTU operates a “City” and “Rural” electric system, (the “City Electric System” and the “Rural Electric System,” respectively). Each system, while operated by a common staff, is maintained separately for internal and external accounting and reporting purposes. The accompanying financial statements present only the City Electric System and its blended component unit, BTU QSE Services, Inc. (QSE), a separate legal entity. These financial statements are not intended to present the financial position or results of operations of the Rural Electric System or the City of Bryan, Texas.

The City 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 BTU 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 City 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

Report on the Financial Statements

We have audited the accompanying financial statements of the City Electric System of Bryan Texas Utilities (BTU) of the City of Bryan, Texas, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise BTU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 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 opinions.

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
24 GREENWAY PLAZA, SUITE 1800, HOUSTON, TX 77046
P: 713.850.8787 F: 713.850.1673

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City Electric System of BTU of the City of Bryan, Texas, as of September 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City 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, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, BTU has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Beginning net position has been restated to reflect the change in accounting principle from this statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-9 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 City Electric System of BTU of the City of Bryan, Texas' basic financial statements. The introduction section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
December 19, 2014

Management's Discussion and Analysis
(unaudited)

This discussion and analysis of the City Electric System financial performance provides an overview of financial activities for the fiscal years ended September 30, 2014 and 2013. 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 City Electric System and its blended component unit, BTU QSE Services, Inc. The QSE exists to perform qualified scheduling services of electrical generation for BTU according to the Electric Reliability Council of Texas (ERCOT) protocols. Although the QSE is a separate legal entity, it is considered a blended component unit and is reported as if it were a part of the City Electric System.

The financial statements are prepared using accrual accounting methods as utilized by similar business activities in the private sector. The City Electric System annual reporting period (fiscal year) ends September 30 of each year.

The Statements of Net Position include the City 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). They also provide the basis for the evaluation of capital structure, liquidity, and flexibility of the City 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 City Electric System's recovery of costs.

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

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

Financial Analysis

BTU's City Electric System's, along with its blended component unit, QSE, condensed statements of net position at September 30, are as follows:

Condensed Statements of Net Position

	2014	2013 as restated*
Current assets	$ 79,578,063	$ 67,319,161
Capital assets, net	276,316,593	256,407,366
Restricted assets	49,355,577	45,350,530
Other	29,078,866	37,470,778
Total assets	434,329,099	406,547,835
Deferred outflows	16,717,295	21,104,372
Current liabilities	20,055,660	19,493,685
Current liabilities payable from restricted assets	24,542,078	26,188,232
Noncurrent liabilities	224,052,888	207,032,739
Total liabilities	268,650,626	252,714,656
Deferred inflows	844,222	848,968
Net position:		
Net investment in capital assets	112,682,327	113,689,376
Restricted	17,922,763	19,556,975
Unrestricted	50,946,456	40,842,232
Total net position	$ 181,551,546	$ 174,088,583

*Restatement due to implementation of GASB Statement No. 65. Refer to note 1 of the notes to the financial statements for additional information.

BTU's City Electric System's, along with its blended component unit, QSE, condensed statements of revenues, expenses, and changes in net position for the years ended September 30, are as follows:

Condensed Statements of Revenues, Expenses And Changes in Net Position

	FY2014	FY2013 as restated
Operating revenues	$ 183,923,241	$ 159,646,236
Operating expenses	161,614,102	148,139,336
Operating income	22,309,139	11,506,900
Investment income	414,342	407,920
Interest expense	(8,486,837)	(8,446,829)
Income before operating transfers & special items	14,236,644	3,467,991
Special items - gain on sale of land	-	871,080
Special items - gain on sale of fuel oil	2,493,174	-
Transfers, net	(9,266,855)	(7,852,016)
Changes in net position	7,462,963	(3,512,945)
Net position, beginning of period - as restated	174,088,583	177,601,528
Net position, end of period	$ 181,551,546	$ 174,088,583

Financial Highlights

- The City Electric System customer base totaled 34,609 and 33,920 customers at September 30, 2014 and 2013, respectively, an increase of 2.0%.

- Operating revenues for the fiscal years ended September 30, 2014 and 2013 were $183,923,241 and $159,646,236, respectively, an increase of 15.2%. The increase in revenues is primarily due to higher off system wholesale sales, larger transmission cost of service revenue, and customer growth during the fiscal year ended September 30, 2014.

- Operating expenses for the fiscal years ended September 30, 2014 and 2013 were $161,614,102 and $148,139,336, respectively, an increase of 9.1%. The increase in expenses is primarily due to higher energy costs due to serving larger system and off-system sales.

- Net position for the years ended September 30, 2014 and 2013 were $181,551,546 and $174,088,583, respectively, of which $50,946,456 and $41,307,573 were available to meet the City Electric System's ongoing obligations. The change in net position for the fiscal years ended September 30, 2014 and 2013 were $7,462,963 and $(3,512,945), respectively. The increase is primarily the result of higher system and off-system sales and increased transmission cost of service revenues.

- The City Electric System increase in capital assets is due mostly to transmission and distribution infrastructure for new customer growth and reliability.

General Trends and Significant Events

Long-Term Debt -

For the fiscal year ended September 30, 2014, the City of Bryan issued certificates of obligation dated May 15, 2014 ("2014 Certificates") totaling $34,855,000 for the City Electric System. The 2014 Certificates mature serially beginning August 15, 2015 through August 15, 2039, with coupon rates ranging from 2.00% to 5.00%. The proceeds from the sale of the 2014 Certificates are restricted to the acquisition and construction of improvements, additions, and extensions of transmission and distribution facilities. At September 30, 2014, there was $181,480,000 and $34,855,000 of City Electric System revenue bonds and certificates of obligation, respectively, outstanding payable from revenues of the City Electric System. The City Electric System did not issue debt in the fiscal year ended September 30, 2013.

Rates –

On October 1, 2013, BTU implemented a new electric rate design for the City Electric System which includes City of Bryan retail customers and the Rural Electric System wholesale rate. 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 BTU 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.

Power Supply –

On August 28, 2014, BTU entered into a 25 year renewable energy power purchase agreement with Los Vientos Windpower, LLC, a subsidiary of Duke Energy. Under the agreement, BTU will purchase 33% of the output from wind turbines with a generating capacity of 110 MW from the Los Vientos V wind project in Starr County, Texas, which has an expected completion date of late 2015.

Transmission Construction -

During 2013, BTU completed construction of several major transmission projects. Additions include the Koppe Bridge and Wellborn substations, upgrades to the Greens Prairie and Snook substations, and 24 miles of transmission line connecting the Greens Prairie substation to the new Wellborn and Koppe Bridge substations and the Snook substation. The new facilities increase system reliability and allow BTU to better serve system growth. These transmission projects added $36.7 million to Plant in Service in 2013. The cost of the transmission additions were approved for recovery through the Texas Public Utility Commission's Transmission Cost of Service Rates on November 25, 2013. BTU continued construction of the transmission grid in 2014, adding $22.7 million to construction work in process in 2014.

Sale of Fuel Oil -

On April 8, 2014, BTU sold 1.5 million gallons of fuel oil from the Dansby generation facility for the amount of $3,803,050. BTU had no further operational need for the fuel oil. Reflected in the Statement of Revenues, Expenses, and Changes in Net Position is a gain on the transaction totaling $2,493,174.

Sale of Land –

On July 18, 2013, BTU sold 23.684 acres of land to Axis Pipe and Tube, Inc. for the amount of $884,995 for the development and construction of an industrial manufacturing facility. Reflected in the Statements of Revenues, Expenses and Changes in Net Position is a gain on the transaction totaling $871,080.

Other –

- On August 25, 2014, BTU experienced a summer peak load of 303MW. This was slightly above the fiscal year 2013 summer peak load of 297MW. BTU experienced a winter peak load of 259MW on January 7, 2014, which was significantly higher than the fiscal year 2013 winter peak load of 226MW.

- BTU did not transfer any amounts from the Rate Stabilization Fund for the fiscal years ended September 30, 2014 or 2013.

Subsequent Events

On October 1, 2014, following an in-depth cost of service study, BTU implemented phase one of a three phase electric rate adjustment for the City Electric System which includes City of Bryan retail customers and the Rural Electric System wholesale rate. The three phases, effective on October 1, 2014, 2015, and 2016, will produce a 2.4% increase in base rates over three years.

Requests for Information

This financial report is designed to provide readers with a general overview of BTU's City 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:
Larry Gurley
Randy Trimble
David Werley

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

Bryan Texas Utilities
City Electric System
Statements of Net Position
At September 30, 2014 and 2013

	2014	2013 as restated
Assets		
Current assets:		
Cash and cash equivalents	$ 43,826,475	$ 33,827,726
Accounts receivable	17,951,321	16,199,105
Less allowance for uncollectible accounts	(796,019)	(985,171)
Accrued interest receivable	57,851	71,634
Inventory	4,262,068	5,285,811
Due from other funds	3,880,784	2,728,794
Prepaid energy costs	8,300,717	8,300,717
Under-recovered regulatory fee	1,133,439	-
Other assets	961,427	1,890,545
Total current assets	79,578,063	67,319,161
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	25,600,410	13,515,856
Investments	23,755,167	31,834,674
Prepaid energy costs	29,027,690	37,328,408
Capital assets	414,329,048	405,111,307
Less accumulated depreciation	(138,012,455)	(148,703,941)
Other noncurrent assets	51,176	142,370
Total noncurrent assets	354,751,036	339,228,674
Total assets	$ 434,329,099	$ 406,547,835
Deferred Outflows		
Accumulated decrease in fair value of hedging derivatives	$ 16,717,295	$ 21,104,372

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

Bryan Texas Utilities
City Electric System
Statements of Net Position - continued
At September 30, 2014 and 2013

	2014	2013 as restated
Liabilities		
Current liabilities:		
Accounts payable	$ 11,718,187	$ 11,269,613
Accrued liabilities	869,671	962,281
Due to other funds	1,138,059	1,525,646
Derivative financial instruments - current portion	5,759,986	5,263,229
Other current liabilities	569,757	472,916
Total current liabilities	20,055,660	19,493,685
Current liabilities payable from restricted assets:		
Accrued interest	2,431,504	2,239,135
Over-recovered fuel	5,577,990	9,571,297
Bonds - current portion	12,560,000	10,555,000
Customer deposits	3,972,584	3,822,800
Total current liabilities payable from restricted assets	24,542,078	26,188,232
Non-current liabilities:		
Bonds payable	203,775,000	181,480,000
Bond premium, net	6,721,109	7,276,253
Derivative financial instruments	10,957,309	15,841,143
Net pension obligation	1,765,197	1,720,622
Other post employment benefits	527,922	408,370
Other noncurrent liabilities	306,351	306,351
Total noncurrent liabilities	224,052,888	207,032,739
Total liabilities	268,650,626	252,714,656
Deferred Inflows		
Unamortized gain on reacquired debt	191,814	383,627
Deferred regulatory liability	652,408	465,341
Total deferred inflows	844,222	848,968
Net Position		
Net investment in capital assets	112,682,327	113,689,376
Restricted for:		
Debt reserve	11,558,189	11,558,189
Debt service	3,001,667	2,638,750
Rate stabilization	1,683,888	1,681,017
Collateral deposits	1,679,019	3,679,019
Unrestricted	50,946,456	40,842,232
Total net position	$ 181,551,546	$ 174,088,583

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

Bryan Texas Utilities
City Electric System
Statements of Revenues, Expenses,
And Changes in Net Position
For the Fiscal Years Ended September 30, 2014 and 2013

	FY2014	FY2013 as restated
Operating revenues:		
Electrical system	$ 182,001,272	$ 157,857,718
Other	1,921,969	1,788,518
Total operating revenues	183,923,241	159,646,236
Operating expenses:		
Personnel services	9,850,910	9,510,841
Electric operations	123,264,388	110,857,052
Maintenance	3,750,834	4,217,296
Other services and charges	835,908	681,569
Other expenses	1,718,606	1,546,062
General and administrative	2,192,763	2,049,223
Depreciation and amortization	20,000,693	19,277,293
Total operating expenses	161,614,102	148,139,336
Operating income	22,309,139	11,506,900
Non-operating revenues (expenses):		
Investment income	414,342	407,920
Interest expense	(8,486,837)	(8,446,829)
Total non-operating revenues (expenses)	(8,072,495)	(8,038,909)
Income before operating transfers and special items	14,236,644	3,467,991
Special items - gain on sale of land	-	871,080
Special items - gain on sale of fuel oil	2,493,174	-
Transfers:		
City of Bryan administrative payment	1,331,857	1,344,820
"Right of Way" payment to City of Bryan	(10,598,712)	(9,196,836)
Transfers, net	(9,266,855)	(7,852,016)
Change in net position	7,462,963	(3,512,945)
Net position, beginning of period - as restated	174,088,583	177,601,528
Net position, end of period	$ 181,551,546	$ 174,088,583

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

Bryan Texas Utilities
City Electric System
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2014 and 2013

	FY2014	FY2013 as restated
Cash flows from operating activities		
Receipts from customers	$ 182,083,005	$ 158,473,572
Payments to suppliers	(137,619,947)	(121,550,593)
Payments to employees	(9,788,018)	(9,296,950)
Net cash provided by operating activities	34,675,040	27,626,029
Cash flows from non-capital financing activities		
Operating subsidies and transfers from other funds	1,331,857	1,344,820
Operating subsidies and transfers to other funds	(10,598,712)	(9,196,836)
Net cash used by non-capital financing activities	(9,266,855)	(7,852,016)
Cash flows from capital and related financing activities		
Purchases of capital assets	(27,084,045)	(37,563,560)
Proceeds from capital debt	34,911,221	-
Principal paid on capital debt	(10,555,000)	(10,575,000)
Interest paid on capital debt	(9,097,647)	(9,336,825)
Net cash used by capital and related financing activities	(11,825,471)	(57,475,385)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	15,000,000	41,000,000
Purchases of investments	(8,940,546)	(13,135,915)
Collateral deposits to counterparties	2,000,000	650,000
Interest and dividends received	441,135	549,839
Net cash provided by investing activities	8,500,589	29,063,924
Net increase (decrease) in cash and cash equivalents	22,083,303	(8,637,448)
Balance-beginning of the year	47,343,582	55,981,030
Balance-end of the year	$ 69,426,885	$ 47,343,582
Reconciliation of Ending Cash Balance		
Cash and cash equivalents	$ 43,826,475	$ 33,827,726
Cash and cash equivalents – restricted	25,600,410	13,515,856
Balances-end of year	$ 69,426,885	$ 47,343,582

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

Bryan Texas Utilities
City Electric System
Statements of Cash Flows - continued
For the Fiscal Years Ended September 30, 2014 and 2013

	FY2014	FY2013 as restated
Operating income	$ 22,309,139	$ 11,506,900
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation and amortization	20,000,693	19,277,293
Bad debts	146,887	272,787
Change in assets and liabilities:		
Accounts receivable	(1,990,020)	(1,232,674)
Inventory	1,023,742	(260,322)
Under-recovered regulatory fee	(1,133,439)	-
Other assets	929,122	(1,272,926)
Due from other funds	(1,917,385)	828,337
Accounts payable	(525,479)	(475,642)
Accrued liabilities	(92,612)	118,906
Over-recovered fuel	(3,993,307)	(1,453,165)
Customer deposits	149,784	66,318
Net pension obligation		
and other post-employment benefits	155,502	94,984
Due to other funds	(387,587)	155,233
Net cash provided by operating activities	$ 34,675,040	$ 27,626,029

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

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 (the City). BTU operates a city and rural electric system. Each system, while operated by a common staff, is maintained separately for accounting and reporting purposes. BTU's City Electric System (the City Electric System) is the reporting entity and includes BTU's Qualified Scheduling Entity (QSE), a separate legal entity considered a blended component unit because its primary purpose is to provide a service to BTU and the BTU Board of Directors serves as the board of the QSE. The financial statements present only the City Electric System of BTU and are not intended to present the financial position of BTU's Rural Electric System or the City and the results of their operations and cash flows in conformity with generally accepted accounting principles.

The condensed statements of net position for the QSE as of September 30 are as follows:

Condensed Statements of Net Position

	2014	2013
Current assets	$ 4,935,611	$ 4,565,833
Capital assets, net	406,435	616,773
Total assets	5,342,046	5,182,606
Current liabilities	494,352	473,328
Due to other funds	2,727,062	2,588,646
Total liabilities	3,221,414	3,061,974
Net position:		
Net investment in capital assets	406,435	616,773
Restricted	-	-
Unrestricted	1,714,197	1,503,859
Total net position	$ 2,120,632	$ 2,120,632

The condensed statements of revenues, expenses, and changes in net position for the QSE for the years ended September 30, are as follows:

Condensed Statements of Revenues, Expenses And Changes in Net Position

	FY2014	FY2013
Operating revenues	$ 1,482,500	$ 1,378,404
Operating expenses:		
Personnel services	991,299	884,506
Electric operations	267,473	272,215
General and administrative	13,389	11,344
Depreciation and amortization	210,339	210,339
Total operating expenses	1,482,500	1,378,404
Operating loss	-	-
Change in net position	-	-
Net position, beginning of period	2,120,632	2,120,632
Net position, end of period	$ 2,120,632	$ 2,120,632

Financial Statements - The financial statements for the City 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 Statements of Net Position. The Statements of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Statements of Revenues, Expenses and Changes in Net Position distinguish 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 City 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 City 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 City Electric System prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

New Accounting Pronouncements, Changes in Accounting Principles and Restatements – For the fiscal year ended September 30, 2014, BTU adopted the following GASB pronouncements:

- 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.

  The requirements of GASB Statement No. 65 caused the City Electric System to restate prior year net positions and changes in net position by the amount of unamortized debt issuance costs. GASB Statement No. 65 requires that such costs be expensed in the period incurred rather than amortized over the life of the debt.

  The following table provides a reconciliation of net position at September 30, 2013, as previously reported to net position at September 30, 2013, as restated:

	2013
Net Position, beginning of period - as previously reported	$180,191,891
Reduction of unamortized debt issuance costs	(2,590,363)
Net Position, beginning of period - as restated	$177,601,528

  The following table provides a reconciliation of change in net position for the period ending September 30, 2013, as previously reported to change in net position for the period ending September 30, 2013, as restated:

	FY2013
Change in Net Position - as previously reported	$ (3,669,929)
Reduction in interest expense	156,984
Change in Net Position - as restated	$ (3,512,945)

- 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. The City Electric System does not engage in such financial guarantees, and as such, there was no impact on the City Electric System financial statements as a result of this implementation.

For the fiscal year ended September 30, 2013, BTU 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 City Electric System does not engage in any SCA's, and as such, there was no impact on the City 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. Other than a change in footnote presentation, there was no impact on the City Electric System's financial statements as a result of this implementation.

- 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 City 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 City Electric System's financial statements from implementation of this guidance.

The following guidance issued by GASB is effective for the fiscal year ended 2015, and is expected to be applicable to the City Electric System:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, amends the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. Employers are required to report the difference between the actuarial total pension liability and the pension plan's fiduciary net position as the net pension liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to the plan were exceeded by the actuarially calculated contributions. The City Electric System is currently assessing the significance that adoption of this statement will have on its financial statements. Adoption of this statement is required for the City Electric System by the fiscal year ended September 30, 2015.

- 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 City Electric System will be limited to its impact on recognition of potential combination and disposal transactions into which the City Electric System may enter in the future. Adoption of this statement is required for the City Electric System for the fiscal year ended September 30, 2015.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68.* This Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Adoption of this statement is required for the City Electric System for fiscal year ended September 30, 2015.

<u>Restricted Funds</u> - 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.

<u>Use of Estimates</u> - 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.

<u>Utility Revenues, Fuel Recovery, and Regulatory Recovery</u> - Customers are billed on the basis of monthly cycle billings. At year end, the City Electric System accrues estimated unbilled revenues for the period ended September 30. The difference between fuel revenue 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, 2014 and 2013, the City Electric System reported a current liability – over recovered fuel of $5,577,990 and $9,571,297, respectively.

The difference between regulatory revenue billed and regulatory expense incurred is recorded as an addition or a reduction to transmission cost of service expense, with a corresponding entry to accounts payable – over recovered regulatory fee or accounts receivable – under recovered regulatory fee, whichever is appropriate. At September 30, 2014, the City Electric System reported a current asset – under recovered regulatory fee of $1,133,439. At September 30, 2013, the regulatory charge was not separated from the base rate charge.

Prepaid Energy Costs - The Texas Municipal Power Agency's ("TMPA") rates for the purchase of electricity billed to the City Electric System are designed to cover TMPA's annual system costs including debt service costs. As further discussed in Note 10 – Texas Municipal Power Agency, during the fiscal year ended September 30, 2010, the City Electric System, along with other TMPA member cities, issued debt in their own names to refund a portion of TMPA debt and to finance certain capital improvements of TMPA. Such amounts have been accounted for as a prepayment of future energy costs on the Statements of Net Position and are amortized through 2019, the life of the associated debt. Additionally, as discussed in Note 12 – Commitments and Contingencies, in 2007, BTU entered into a purchase power agreement with a subsidiary of Shell Energy North America (U.S.), L.P. As a part of the agreement, BTU prepaid $14,000,000 of generation capacity costs. The prepayment is being amortized over the life of the agreement which extends through December 31, 2017. The amortization of prepaid energy costs is reported on the Statements of Revenues, Expenses and Changes in Net Position in depreciation and amortization and totaled $8,300,717 for each of the fiscal years ended September 30, 2014 and 2013.

Capital Assets - Capital assets are stated at historical cost. Also, to the extent the construction is performed by the City Electric System, the cost includes payroll and related costs and certain general and administrative expenses. Assets constructed utilizing funds collected from customers and developers as contributions of aid in construction (AIC) are also capitalized. Interest is not capitalized in these accounts because interest is recovered concurrently in the utility rate structure. Maintenance, repairs and minor renewals and 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 City 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.

Inventory - Inventory is valued at average cost and is accounted for using the consumption method.

Bond Issuance Expenses – According to the financial reporting requirements of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, bond issuance expenses are to be expensed as incurred. Issuance expenses are reported on the Statements of Revenues, Expenses and Changes in Net Position in interest expense and totaled $141,088 for the fiscal year ended September 30, 2014. For the fiscal year ended September 30, 2013, the City Electric System did not incur any bond issuance costs.

Deferred Regulatory Liability – For the fiscal year ended September 30, 2014, to better align certain benefits received with BTU's retail rate design, the City Electric System elected the option to utilize regulatory accounting treatment for the funds it collects from customers and developers as contributions of aid in construction (AIC) under GASB 62. The City Electric System recognized AIC received as a deferred regulatory liability in the deferred inflows section of the Statements of Net Position. The deferred regulatory liability is amortized to depreciation expense over the life of the asset constructed. This change in accounting treatment was retroactively applied to the prior period, but there was no impact to net position at September 30, 2013, or change in net position for the period ended September 30, 2013.

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

Special Items - Special items are those transactions or events within the control of management that are either unusual in nature or infrequent in occurrence. On April 8, 2014, BTU sold 1.5 million gallons of fuel oil from the Dansby generation facility. For the fiscal year ended September 30, 2014, the City Electric System reported a one-time special item gain of $2,493,174, which represented the sale proceeds from the transaction, less the carrying cost of the fuel.

The City Electric System recognized as a special item the gain on sale of land. For the fiscal year ended September 30, 2013, the City Electric System reported a one-time special item gain of $871,080, which represented the sale proceeds from the transaction, less the historical cost of the land.

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 or ending net position as previously reported.

2. Cash and Investments

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

Deposits

State statutes require that all deposits in financial institutions be fully collateralized with depository insurance or by U.S. Government obligations or its agencies and instrumentalities; or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. City Electric System demand deposits for the fiscal years ended September 30, 2014 and 2013 were held at Branch Banking & Trust Company and Citibank, N.A., respectively. 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 statutes, by various City ordinances, and by City of Bryan investment policy which amplifies those guidelines and prescribes how the City Electric System will operate its investment program in accordance with applicable laws and regulations.

The City's policy, which was adopted on September 24, 2013 for the fiscal year ending September 30, 2014, 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, Chapter 2256. These investments include the following:

a. Direct obligations of the United States government or its agencies and instrumentalities;

b. Debentures or discount notes issued by, guaranteed by, or for which the credit of any Federal Agencies and Instrumentalities is pledged for payment;

c. Direct obligations of the State of Texas or its agencies;

d. Bonds or other obligations, the principal and interest of which is guaranteed by the full faith and credit of the United States;

e. Certificates of Deposit issued by state and national banks within the state of Texas that are secured by obligations qualified as acceptable collateral;

f. Certificates of deposit issued by savings and loan associations within the state of Texas that are secured by obligations qualified as acceptable collateral;

g. Bankers Acceptances eligible for discounting with the Federal Reserve maturing within 90 days;

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, F-1 or its equivalent;

i. Fully collateralized repurchase agreements having a defined termination date of 90 days or less, secured by qualified obligations, pledged with a third party, and placed through a primary government securities dealer as defined by the Federal Reserve, or a bank domiciled in Texas;

j. Money Market Mutual Funds that are SEC registered no-load funds with dollar-weighted average portfolio maturity of 90 days or less;

k. Local government investment pools rated no lower than AAA or AAA-m from at least one nationally recognized rating agency;

l. Hedging contracts and related security insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations;

m. Reverse repurchase agreements are allowed only if the term does not exceed 90 days after delivery, and money received is used to acquire additional authorized investments with a maturity date not to exceed the expiration date stated in the agreement.

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

The fair market value of the City Electric System's cash, cash equivalents and investments at September 30, 2014 and 2013 is summarized as follows:

	2014	**2013**
Demand deposits	$ 69,426,885	$ 47,343,582
Investment in government pool	3,007,043	3,005,996
Collateral deposits with counterparties	1,679,019	3,679,019
Investments in agency securities	19,069,105	19,146,846
Investments in treasury securities	-	6,002,813
Total	$ 93,182,052	$ 79,178,256

Investments of all funds are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

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

As of September 30, 2014, the City Electric System had the following investments:

		Investment Maturity (in Years)		
Investment Types	**Fair Value**	**Less Than 1**	**1 - 5**	**Greater Than 5**
Investment in agency securities	$ 19,069,105	$ 2,002,582	$ 17,066,523	$ -
Investment in government pool	3,007,043	3,007,043	-	-
Collateral deposits with counterparties	1,679,019	1,679,019	-	-
Total fair value	$ 23,755,167	$ 6,688,644	$ 17,066,523	$ -

The City Electric System's investment in government pool includes 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. TexSTAR operates on a $1.00 net asset value basis and allows same day or next day redemptions and deposits. Interest is allocated daily based on portfolio earnings and participant account balances. The City Electric System's investment in TexSTAR is stated at amortized cost, which approximates fair value. The fair value of the City Electric System's investment is the same as the value of the pool shares. This pool is not managed by the City Electric System and the City Electric System does not possess securities that exist in either physical or book entry form. The investment in TexSTAR is rated AAAm by Standard and Poors.

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

Credit Risk – As described above, it is BTU's policy to limit its investments to high grade instruments including obligations of the United States or its agencies and commercial paper holding the top ratings issued by nationally recognized statistical rating organizations.

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 2014, cash and investments of $93.2 million exceeded amounts required to be restricted by $43.8 million. In 2013, cash and investments of $79.2 million exceeded amounts required to be restricted by $33.8 million. The City Electric System did not transfer rate stabilization funds to unrestricted assets in 2014 or 2013.

Amounts required to be restricted at September 30, 2014 and 2013 are as follows:

	FY2014	FY2013
Rate stabilization fund	$ 1,683,888	$ 1,681,017
Debt reserve	11,558,189	11,558,189
Debt service	5,433,170	4,877,884
Bond funds for construction	19,450,737	10,160,324
Over-recovered fuel expense	5,577,990	9,571,297
Customer deposits	3,972,584	3,822,800
Collateral deposits	1,679,019	3,679,019
Restricted cash and investments	$ 49,355,577	$ 45,350,530

3. Capital Assets

General Description – At September 30, 2014, production plant included Dansby and Atkins power plants located in Brazos County, which are solely owned and operated by BTU. In total, BTU production plants include four gas-fired generating units representing 226 megawatts of available generating capacity. Four of the oldest Atkins power plant units representing 111 megawatts of capacity were retired during the fiscal year ended September 30, 2014. Other assets reflected in total capital assets include transmission, distribution and general plant facilities.

Impairments – BTU annually evaluates capital assets as required by GASB Statement No. 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The statement provides guidance for determining if any assets have been impaired and for calculating the appropriate write-downs in value for any assets found to be impaired. An internal company-wide review of capital assets, in accordance with GASB Statement No. 42, concluded that the City Electric System had no impaired capital assets at September 30, 2014.

Capital asset activity for the fiscal year ended September 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 5,847,896	$ 173,485	$ -	$ 6,021,381
Construction in Progress	13,857,623	30,856,375	13,616,663	31,097,335
Total capital assets, not being depreciated	19,705,519	31,029,860	13,616,663	37,118,716
Capital assets, being depreciated:				
Production Plant	124,288,925	1,574,289	21,534,677	104,328,537
Transmission Plant	124,611,222	3,172,141	378,331	127,405,032
Distribution Plant	115,723,032	6,582,273	123,322	122,181,983
General Plant (including QSE)	20,782,609	2,794,510	282,339	23,294,780
Total capital assets, being depreciated	385,405,788	14,123,213	22,318,669	377,210,332
Less accumulated depreciation for:				
Production Plant	65,047,805	2,510,206	21,534,677	46,023,334
Transmission Plant	24,794,972	3,796,894	378,331	28,213,535
Distribution Plant	44,821,513	3,693,872	123,323	48,392,062
General Plant (including QSE)	14,039,651	1,626,211	282,338	15,383,524
Total accumulated depreciation	148,703,941	11,627,183	22,411,849	138,012,455
Total capital assets, being depreciated, net	236,701,847	2,496,030	-	239,197,877
Total capital assets, net	$256,407,366	$33,525,890	$13,616,663	$276,316,593

Depreciation and amortization totals $20.0 million and $19.3 million, for the fiscal years ended September 30, 2014 and 2013, respectively, which includes $8.3 million in both fiscal years related to amortization of prepaid energy.

4. Long-Term Debt

During the fiscal year ended September 30, 2014, the City of Bryan issued certificates of obligation dated May 15, 2014 ("2014 Certificates") totaling $34,855,000 for the City Electric System. The 2014 Certificates mature serially on August 15, 2015 through August 15, 2039, with coupon rates ranging from 2.00% to 5.00%. The proceeds from the sale of the 2014 Certificates are restricted to the acquisition and construction of improvements, additions, and extensions of transmission and distribution facilities. The City Electric System did not issue debt in the 2013 fiscal year.

The City Electric System recognized a gain on refunded debt related to the issuance of the Series 2012 Bonds in the deferred inflows section in the Statements of Net Position. The gain is amortized over 3.5 years, which is the weighted average life of the old refunded debt. At September 30, 2014 and 2013, the unamortized gain on refunded debt was 191,814 and $383,627, respectively.

Changes to long term debt during fiscal year 2014, including current portion are as follows:

	Interest Rates (%)	Series Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Revenue Bonds:							
Series 2005	4.000 - 4.500	2025	$ 9,225,000	$ -	$ 610,000	$ 8,615,000	$ 635,000
Series 2006	4.000 - 5.000	2031	10,070,000	-	380,000	9,690,000	395,000
Series 2007	4.500 - 5.250	2032	27,535,000	-	915,000	26,620,000	955,000
Series 2008	4.000 - 5.250	2033	28,750,000	-	885,000	27,865,000	925,000
Series 2009	4.000 – 5.000	2034	22,410,000	-	680,000	21,730,000	705,000
Series 2010	5.000	2019	32,365,000	-	2,155,000	30,210,000	3,445,000
Series 2012	3.125 - 5.000	2037	61,680,000	-	4,930,000	56,750,000	4,670,000
Total Revenue Bonds			192,035,000	-	10,555,000	181,480,000	11,730,000
Certificates of Obligation:							
Series 2014	2.000 – 5.000	2039	-	34,855,000	-	34,855,000	830,000
Total Certificates of Obligation			-	34,855,000	-	34,855,000	830,000
Total long-term debt			$192,035,000	$ 34,855,000	$ 10,555,000	$216,335,000	$ 12,560,000

All net revenues of the City 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 City Electric System other than certain interest income and expense and depreciation and amortization. The bond resolutions further require that the net revenues, as defined, equal at least 1.10 times the average annual debt service on all revenue bonds. The City Electric System is in compliance with these requirements at September 30, 2014 and 2013.

Under the terms of the revenue bond covenants, City Electric System is required to maintain minimum reserve fund requirements equal to approximately one year of revenue bond debt service requirements. The reserve fund requirements may be satisfied by cash, a letter of credit or an insurance policy. The reserve fund requirements for the Series 2005, 2008, 2009, 2010, and 2012 Bonds are satisfied with restricted funds which are reported on the City Electric System's Statements of Net Position as debt reserve. The reserve fund requirements for the Series 2006 and Series 2007 Bonds are satisfied with insurance policies. There are no reserve fund requirements for the 2014 Certificates.

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

Revenue Bonds

Year Ending September 30	Principal	Interest	Total
2015	$ 11,730,000	$ 8,532,050	$ 20,262,050
2016	12,165,000	7,968,200	20,133,200
2017	11,470,000	7,437,800	18,907,800
2018	6,920,000	6,877,944	13,797,944
2019	27,775,000	6,586,463	34,361,463
2020-2024	34,295,000	23,049,125	57,344,125
2025-2029	35,375,000	15,006,975	50,381,975
2030-2034	34,130,000	5,918,575	40,048,575
2035-2039	7,620,000	636,900	8,256,900
Total	$ 181,480,000	$ 82,014,032	$ 263,494,032

Certificates of Obligation

Year Ending September 30	Principal	Interest	Total
2015	$ 830,000	$ 1,277,915	$ 2,107,915
2016	1,005,000	1,102,741	2,107,741
2017	1,025,000	1,082,641	2,107,641
2018	1,045,000	1,062,141	2,107,141
2019	1,070,000	1,041,241	2,111,241
2020-2024	5,740,000	4,807,706	10,547,706
2025-2029	6,770,000	3,775,119	10,545,119
2030-2034	7,925,000	2,617,356	10,542,356
2035-2039	9,445,000	1,093,220	10,538,220
Total	$ 34,855,000	$ 17,860,080	$ 52,715,080

In the Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended September 30, 2014 and 2013, interest expense is recorded in the amount of $8,486,837 and $8,446,829, respectively, and is included as a non-operating expense.

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. The following covers the City's retirement plan as a whole, unless indicated otherwise.

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

The City of Bryan is one of 850 municipalities having their benefit plan administered by TMRS. Each of the 850 municipalities has an annual, individual actuarial valuation performed. TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.org.

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.

Plan provisions for the City were as follows:

	Plan Year 2013	**Plan Year 2014**
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
COLA Increase (to retirees)	50% of CPI Repeating	50% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The EAN was first used in the December 31, 2013 valuation. Previously, the Projected Unit Credit actuarial cost method was used. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the City, would be sufficient to meet all benefits payable on their behalf. The salary weighted average of the individual rates is the normal cost rate. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the 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 a basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	$ 7,618,287
Interest on Net Pension Obligation	477,560
Adjustment to the ARC	(429,426)
Annual Pension Cost (APC)	7,666,421
Contributions Made	(7,617,713)
Increase (decrease) in net pension obligation	48,708
Net Pension Obligation, beginning of year	6,822,290
Net Pension Obligation, end of year	$ 6,870,998
Net Pension Obligation, end of year – City Electric System only	$ 1,765,197

The portion of the net pension obligation allocated to the City Electric System is determined by the ratio of the City Electric System contributions to TMRS as a percentage of City-wide contributions to TMRS. That ratio was 26% for the year ended September 30, 2014.

City historical data is as follows:

Fiscal Year	Annual Pension Cost (APC)	Annual Contribution	Percentage of APC Contributed	Net Pension Obligation at September 30
9/30/12	$ 8,414,382	$ 7,403,380	87.99%	$ 6,567,779
9/30/13	7,875,420	7,620,909	96.77%	6,822,290
9/30/14	7,666,421	7,617,713	99.36%	6,870,998

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2012 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation date	12/31/2011	12/31/2012	12/31/2013
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.2 years; closed period	25.3 years; closed period	25.0 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial assumptions:			
Investment rate of return	7.0%	7.0%	7.0%
Projected salary increases	Varies by age & service	Varies by age & service	Varies by age & service
Included inflation rate	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	1.5%	1.5%

Funding Status and Funding Progress

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2013	$211,262,385	$263,183,703	80.3%	$51,921,318	$45,779,194	113.4%
12/31/2012	$196,237,254	$237,584,626	82.6%	$41,347,372	$45,272,820	91.3%
12/31/2011	$181,556,932	$239,737,958	75.7%	$58,181,026	$44,508,267	130.7%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

6. Other Post-Employment Benefits

Effective January 1, 1991, by action of the City Council, the City began offering post-retirement health care benefits to employees. Effective January 1, 1993, retiree spouses were granted eligibility for benefits. Dependents were granted eligibility effective January 1, 1994. This plan is a single employer defined benefit, other post-employment benefit plan. A separate, audited GAAP-basis post-employment benefit plan report is not available.

To qualify 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. Coverage can continue for life.

Employees terminating before normal retirement conditions are not eligible for retiree health coverage. 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 any subsequent date elects to discontinue coverage, the dependent is no longer eligible for coverage.

Survivors of employees who die while actively employed are not eligible for retiree health coverage. However, surviving spouses and dependents of Texas public officers (as defined by Texas Government Code, Chapter 615) 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 date the surviving spouse becomes eligible for federal Medicare benefits. Surviving dependent minor children are entitled to continue health insurance coverage until the dependent reaches the age of 18 years or a later date to the extent required by state or federal law. A surviving dependent who is not a minor child is entitled to continue health insurance coverage until the earlier of: (1) the date the dependent becomes eligible for group health insurance through another employer or (2) the date the dependent becomes eligible for federal Medicare benefits. Eligible survivors are entitled to purchase the continued coverage at the group rate for that coverage that exists at the time of payment.

Surviving covered spouses and dependents of deceased retired employees may continue health care coverage for up to 36 months through COBRA.

Once the retiree or spouse is enrolled in Medicare, the City's plan becomes the secondary payer. The 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.

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 also offers a fully insured optional vision plan that retirees and their dependents may purchase. The City reserves the right to modify premium amounts, to modify eligibility requirements and to modify or discontinue retiree health benefits.

In the year ended September 30, 2014, retirees paid $576,079 in premiums and $795,559 in claims were paid for post-retirement health care and administrative charges. As of September 30, 2014, the City has 43 retirees, 39 retirees and spouses, 9 retirees and families and 4 retirees and child(ren) participating in the health plan, out of the 390 employees eligible to participate upon retirement. Expenses are recognized as retirees submit claims.

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 when submitted. COBRA participants are reimbursed at the same levels as active employees. Participants paid premiums of $14,618 and incurred claims and administrative expenses of $4,867 in the year ended September 30, 2014. As of September 30, 2014 the City has 1 COBRA participant.

Future year estimated claims for all health plan participants are actuarially determined by the reinsurer. All assets of the Employee Benefits Trust Fund are available for future claim payments for health plan participants.

Prior to January 1, 2010, all retirees electing health plan coverage received a health premium subsidy averaging 40%. Beginning January 1, 2010, the City implemented new eligibility requirements for subsidized retiree premiums. The new eligibility requirements require retirees to meet the 'Rule of 80' (sum of age plus years of service at retirement must equal to at least 80), in order to receive the subsidized retiree premium. Retirees not meeting the 'Rule of 80' may still elect the City's retiree health plan coverage, but will not receive a subsidy.

GASB issued GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other than Pensions*, which establishes standards for the measurement, recognition and display of other postemployment benefit expenditures and related liabilities, and note disclosures in the financial report. Basically, public-sector employers must accrue the cost of other postemployment benefits (OPEB) over the active service life of benefiting employees. This statement was effective for the City for the fiscal year ending September 30, 2008.

Funding Policy and Annual OPEB Cost

The City's annual 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 most recent OPEB valuation performed as of December 31, 2013, as required by GASB 45.

Annual OPEB costs for the fiscal year ending September 30, 2014, and prior two fiscal years ended are as follows:

	FY2014	**FY2013**	**FY2012**
Annual required contribution (ARC)	$ 874,517	$ 975,990	$ 947,563
Interest on OPEB obligation	96,503	73,122	43,381
Adjustment to ARC	(89,409)	(44,631)	(40,192)
Annual OPEB cost	881,611	1,004,481	950,752
Net estimated employer contributions	(219,480)	(484,903)	(289,840)
Increase in net OPEB obligation	$ 662,131	$ 519,578	$ 660,912
Net OPEB obligation, beginning of year	2,144,511	1,624,933	964,021
Net OPEB obligation, end of year	$2,806,642	$2,144,511	$1,624,933
Net OPEB obligation, end of year – City Electric System	$ 527,922	$ 408,370	$ 294,812

The portion of the net OPEB obligation allocated to the City Electric System is determined by the ratio of the City Electric System employees as a percentage of City-wide employees. That ratio was 18.8% for the year ended September 30, 2014.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year ending September 30, 2014 and the preceding two fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation	City Electric System OPEB Obligation
2012	$ 950,752	$ 289,840	30.5%	$ 1,624,933	$ 294,812
2013	1,004,481	484,903	48.3%	2,144,510	408,370
2014	881,611	219,480	24.9%	2,806,642	527,922

Funding status and funding progress

The City had actuarial valuations performed as of December 31, 2013, December 31, 2011, December 31, 2009 and May 31, 2008. The funded status of the City's retiree health care plan, under GASB Statement No. 45, is as follows:

	FY2014	**FY2013**	**FY2012**
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)	10,704,428	11,860,133	7,694,907
Unfunded AAL (UAAL)	(10,704,428)	(11,860,133)	(7,694,907)
Funded Ratio	0%	0%	0%
Covered Payroll	$46,907,165	$46,141,173	$44,610,716
UAAL as a % of Covered Payroll	23%	26%	17%

Under the reporting parameters, the City's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by $10,704,428 at December 31, 2013.

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 entry age normal method then provides for a systematic recognition of the cost of 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.

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:

Inflation rate	3.00% per annum
Investment rate of return	4.50%, net of expenses
Actuarial cost method	Projected unit credit cost method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year, open amortization
Payroll growth rate	3.00% per annum
Healthcare cost trend rate	Initial rate of 7.50% declining to an ultimate rate of 5.00% after 10 years

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 City Electric System is covered for risk of losses related to general liability and workers' 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 years ended September 30, 2014 and 2013, the City Electric System paid the City $443,271 and $398,877, respectively, for participation in the City's risk management program.

8. Financial Hedging

BTU's Energy Risk Policy allows for the purchase and sale of certain financial instruments defined as hedge instruments. The essential goal of the Energy Risk Policy is to provide a framework for the operation of a fuel and energy purchasing and hedging program to better manage BTU's risk exposures in order to stabilize pricing and costs for the benefit of BTU's customers.

BTU applies GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53"), which addresses the recognition, measurement, and disclosures related to derivative instruments. BTU utilizes natural gas commodity swaps to hedge its exposure to fluctuating fuel prices. Since these derivatives are entered into for risk mitigation purposes, the instruments are considered potential hedging derivative instruments under GASB 53.

In accordance with the requirements of GASB 53, the City Electric System reports all fuel hedges on the Statements of Net Position at fair value. The fair value of option contracts are determined using New York Mercantile Exchange ("NYMEX") or Houston Ship Channel ("HSC") closing settlement prices as appropriate to the instrument. For swap transactions, the value is calculated as the difference between the closing futures price at the end of the reporting period, and the futures price at the time the positions were established, less applicable commissions.

BTU evaluated all potential hedging derivative instruments for effectiveness as of September 30, 2014, and determined the derivatives to be effective in substantially offsetting the changes in cash flows of the hedgeable items. BTU's hedgeable items are expected HSC natural gas purchases to serve budgeted load. BTU projects total natural gas needs as part of a 10-year forecast. This forecast is the basis for the procurement amount of the hedgeable item. BTU's potential hedging derivatives are NYMEX and HSC indexed commodity swaps and options. These derivatives act as cash flow hedges.

BTU utilized regression analysis to test effectiveness of its NYMEX hedges. Testing was based on the extent of correlation between historical NYMEX index and HSC natural gas prices for the prompt months of January 2003, to September 2014. The correlation coefficient of (0.8386) exceeds the minimum standard established by GASB 53 and indicates a strong linear relationship between the NYMEX and HSC prices. The calculated R^2 value of 0.9543 indicates that the changes in cash flows of the hedge substantially offset the changes in cash flows of the hedgeable item. The City Electric System also utilizes HSC indexed gas commodity swaps to hedge its open exposure after a NYMEX-based swap contract month settles. The City Electric System entered into Platts Gas Daily daily swaps to hedge this exposure. These HSC indexed swaps are hedging the physical purchases of natural gas also based on the HSC index and are effective cash flow hedges under the consistent critical terms method as defined by GASB 53. The swap is for the purchase of virtually the same quantity of the hedgeable item, has zero fair value at inception, and the reference rate of the swap and the hedgeable item are the same (HSC index).

For the fiscal years ended September 30, 2014 and 2013, the total fair value of outstanding hedging derivative instruments was a net liability of $16,717,295 and $21,104,372, respectively. The fair value of those instruments maturing within one year are reported on the Statements of Net Position in current liabilities as derivative financial instruments and were $5,759,986 and $5,263,229 at September 30, 2014 and 2013, respectively. The fair value of those instruments with maturities exceeding one year are reported on the Statements of Net Position in noncurrent liabilities as derivative financial instruments and were $10,957,309 and $15,841,143 at September 30, 2014 and 2013, respectively.

Hedge accounting treatment outlined in GASB 53 and GASB 63 requires changes in the fair value of derivative instruments deemed effective in offsetting changes in cash flows of hedged items be reported as deferred (inflows) outflows of resources on the Statements of Net Position. During the fiscal year ended September 30, 2014, the fair value of the City Electric System's hedging derivative instruments - NYMEX-based commodity swaps - increased by $4,387,077; which is reported in the Statements of Net Position as a reduction of deferred outflows of resources. The deferred outflows are reported until respective contract expirations occur in conjunction with hedged expected physical fuel purchases. When fuel purchase transactions occur, the deferred balance associated with the expired fuel hedging contract is recorded as an adjustment to fuel expense. At September 30, 2014 and 2013, the deferred outflows of resources related to hedging derivatives were $16,717,295 and $21,104,372, respectively, and are reported on the Statements of Net Position.

The following information details the City Electric System's hedging derivative instruments as of September 30, 2014:

Type	Terms	Volume Hedged (MMBTu)	Effective Dates	Maturity Dates	Reference Index	Fair Value
Commodity Swaps	BTU pays prices of $4.065 - 6.49	8,512,500	Oct 2014 - Dec 2018	Oct 2014 - Dec 2018	NYMEX	$(16,717,295)
		8,512,500				$(16,717,295)

The following information details the City Electric System's hedging derivative instruments as of September 30, 2013:

Type	Terms	Volume Hedged (MMBTu)	Effective Dates	Maturity Dates	Reference Index	Fair Value
Commodity Swaps	BTU pays prices of $4.78 - 6.49	10,943,000	Oct 2013 - Dec 2018	Oct 2013 - Dec 2018	NYMEX	$(21,104,372)
		10,943,000				$(21,104,372)

Fuel swap contracts represent a financial obligation to buy or sell the underlying settlement point price. If held to expiration, as is BTU's policy, the financial difference determined by mark-to-market valuation must be settled on a cash basis.

Credit Risk - BTU's hedging derivative instruments generate exposure to a certain amount of risk that could give rise to financial loss. Since current hedges have a net liability position, BTU is not exposed to counterparty credit risk. However, it is BTU's policy to require full collateralization of the fair value of derivative instruments in asset positions should the counterparty's credit ratings fall below investment grade.

Basis Risk - BTU is exposed to basis risk because the expected gas purchases being hedged will settle based on a pricing point (HSC) different than the pricing point of the hedge transactions (NYMEX). For September 2014, prompt month prices were $3.957/MMBtu and $3.922/MMBtu, for NYMEX and HSC, respectively.

Termination Risk - Exposure to termination risk occurs because BTU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. BTU's fuel hedges are exchange-traded instruments, and consequently, termination risk is mitigated by rules established by NYMEX, which is governed by the Commodity Futures Trade Commission.

9. Employee Benefits

The City Electric System 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.

The City established the Employee Benefits Trust Fund effective October 1, 1986, covering health benefits for eligible employees. At that time, the 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 $150,000 and a maximum aggregate stop loss deductible of $7,317,066 for the twelve month period which began January 1, 2014 and ends December 31, 2014. 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 following schedule represents the changes in claims liabilities for the fiscal year:

	FY2014	FY2013
Beginning balance - unpaid claims	$ 1,010,988	$ 1,014,384
Incurred claims	6,667,978	7,336,575
Claim payments	(6,819,803)	(7,339,971)
Ending balance – unpaid claims	$ 859,163	$ 1,010,988
Amounts due in one year	$ 859,163	$ 1,010,988

10. Texas Municipal Power Agency

The Texas Municipal Power Agency ("TMPA") was created in July 1975 by concurrent ordinances of the Texas cities of Bryan, Denton, Garland, and Greenville ("Cities") pursuant to Acts 1995 64th Leg. Ch. 143, sec 1 (the "Act"). Under the provisions of the Act, TMPA is a separate municipal corporation. TMPA is exempt from federal income tax under section 115 of the Internal Revenue code.

In September 1976, TMPA entered into identical Power Sales Contracts (the "Contract") with each of the Cities for the purpose of obtaining the economic advantages of jointly financing, constructing and operating large electric generating units and related facilities to supply the Cities' future energy needs. Under the Contract, the Cities are required to pay, for the benefits received or to be received by them from such activities, an amount sufficient to recover TMPA's operating and maintenance expenses and the Bond Fund, Reserve Fund and Contingency Fund requirements of the Revenue Bond Resolutions. In addition, the Cities are obligated to guarantee the payment of TMPA's bonds and commercial paper. At September 30, 2014, BTU's portion of outstanding TMPA bonds and commercial paper was approximately $142.3 million and $16.6 million, respectively.

As originally written in 1976, the Contract was a requirements contract, which obligated the Cities, with certain exceptions, to purchase their wholesale electricity requirements from TMPA. In 1997, the Contract was amended and converted from a requirements contract to a take-or-pay contract, under which each City is obligated to take or pay for a specified percentage of electricity from TMPA's generating facility. Those percentages are Bryan 21.7%; Denton 21.3%; Garland 47%; and Greenville 10%. The amendment confirmed the Cities' obligations to pay all costs of TMPA.

TMPA operates the Gibbons Creek Steam Electric Station ("Gibbons Creek"), a coal-fired generating plant located in Grimes County, Texas with a net generating capability of 462 MW. The plant began commercial operation October 1, 1983.

In 1998, a dispute arose between TMPA and the City of Bryan over billings by TMPA, of transmission charges associated with the delivery of Gibbons Creek power to the Member Cities. This dispute resulted in a series of administrative proceedings at the Public Utility Commission ("PUC") of Texas that were ultimately appealed to the courts in a lawsuit between TMPA and Bryan in Grimes County District Court (the "Grimes County Suit"). In 2008, a dispute arose between TMPA and Bryan over TMPA's attempt to restructure its debt through passage of a bond resolution, which would have extended the term of the Contract. This dispute resulted in a bond validation suit in Travis County Texas (the "Bond Validation Suit"). The Member Cities of Denton, Garland, and Greenville supported TMPA's position in the Grimes County Suit and in the Bond Validation Suit.

Effective December 17, 2009, TMPA and the Member Cities settled all of the above disputes by entering into a Global Compromise Settlement Agreement whereby the following matters were implemented:

- The Bond Validation Suit and the Grimes County Suit were dismissed. The PUC Cases were ordered remanded to the PUC for reissuance of agreed orders that are neutral on the issue that had been in dispute.

- The parties agreed that TMPA will provide bundled transmission service to all Member Cities while the Contract remains in effect, and that TMPA will provide unbundled service thereafter.

- The Member Cities issued debt (i) to provide $98,500,000 for TMPA's scrubber refurbishment project and (ii) to refinance $56,935,000 of TMPA's Series 2003 Subordinate Lien Bonds, $77,335,000 of TMPA's Series 2004 Subordinate Lien Bonds, and $61,385,000 of TMPA's Series 2004A Subordinate Lien Bonds.

- TMPA and the Member Cities, effective June 24, 2010, amended the Contract to permit the issuance by TMPA of transmission debt without extending the term of the Contract.

- TMPA and the Member Cities agreed that, except for transmission debt, TMPA will not issue bonds without obtaining the consent of the Member Cities.

Under the current debt structure, all generation debt will be paid off by September 1, 2018, causing the Power Sales Contract to expire on that same date. Thereafter, all remaining debt will be transmission debt, payable solely from transmission system revenues. TMPA and the Cities are developing a plan in relation to the ownership, operational, and contractual issues associated with TMPA following September 1, 2018.

During the years ended September 30, 2014 and 2013 the City Electric System paid TMPA $48,665,513 and $49,159,878, respectively for power purchases and related activity under the contract. As of September 30, 2014 and 2013 the City Electric System had payables to TMPA amounting to $1,765,301 and $1,521,436, respectively.

The TMPA's Comprehensive Annual Financial Report for the year ended September 30, 2014 reported the following:

		FY2014
Total Assets	$	952,071,000
Total Deferred Outflows of Resources		7,995,000
Total Liabilities		782,239,000
Total Deferred Inflows of Resources		136,884,000
Total Net Position		40,943,000
Change in Net Position for year ended September 30, 2014	$	(14,170,000)

TMPA's audited financial statements may be obtained by writing TMPA, P.O. Box 7000, Bryan, TX 77805.

11. 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, 2014 and 2013, the Rural Electric System's purchased power totaled $31,674,612 and $26,702,146, respectively, and had payables to the City Electric System in the amount of $3,880,784 and $2,669,756, respectively.

In addition to the $10,598,712 and $9,196,836 transferred to the City of Bryan for right of way in 2014 and 2013, respectively, the City Electric System paid the City of Bryan $774,208 and $630,954 for administrative functions performed by city personnel in 2014 and 2013, respectively. These amounts are included in the other expenses in the accompanying financial statements.

The City of Bryan transferred to City Electric System $1,331,857 and $1,344,820 in 2014 and 2013, respectively, for billing services performed by the City Electric System for water, wastewater and solid waste services.

12. Commitments and Contingencies

BTU purchase and construction commitments approximate $193.5 million at September 30, 2014. This amount primarily includes provisions for future fuel and energy purchases.

On August 28, 2014, BTU entered into a 25 year renewable energy power purchase agreement with Los Vientos Windpower, LLC, a subsidiary of Duke Energy. Under the agreement, BTU will purchase 33% of the output from wind turbines with a generating capacity of 110 MW from the Los Vientos V wind project in Starr County, Texas, which has an expected completion date of late 2015.

On October 14, 2010, BTU entered into a 15 year renewable energy power purchase agreement with Peñascal II Wind Power, LLC, a subsidiary of Iberdrola Renewables. Under the agreement, which extends from January 1, 2011 to December 31, 2025, BTU will purchase the output from wind turbines representing 30MW of generating capacity from Iberdrola Renewables' existing Peñascal 2 Wind Project in Kenedy County, Texas.

On April 30, 2010, BTU entered into a 25 year renewable energy power purchase agreement with Fotowatio Renewable Ventures (FRV). FRV owns and operates a photovoltaic solar power plant in Presidio County, Texas. Under the agreement, which extends from 2013 to 2037, BTU will purchase the output from the 10MW facility.

On November 16, 2007, BTU entered into a 10 year purchased power agreement with a subsidiary of Shell Energy North America (U.S.), L.P. The agreement, which extends from January 1, 2008 to December 31, 2017, allows BTU to schedule up to 50MW of energy on a day-ahead basis. Under the agreement, BTU must make specified minimum monthly non-fuel payments which are included in the $193.5 million of purchase and construction commitments.

On August 29, 2007, BTU entered into a 10 year fixed price purchased power agreement with Credit Suisse Energy, L.L.C. (Credit Suisse) to supply energy to a wholesale customer under a corresponding 10 year fixed price full requirements sale agreement extending from January 1, 2008 to December 31, 2017. This agreement was transferred by Credit Suisse to J.P. Morgan Ventures Energy Corporation in January 2012.

There are several lawsuits pending in which the City Electric System is involved. In the event of an unfavorable outcome in any suit, in management's opinion, a claim against the City Electric System would be covered by insurance and would not materially affect the financial statements of the City Electric System.

13. Subsequent Events

On October 1, 2014, following an in-depth cost of service study, BTU implemented phase one of a three phase electric rate adjustment for the City Electric System which includes City of Bryan retail customers and the Rural Electric System wholesale rate. The three phases, effective on October 1, 2014, 2015, and 2016, will produce a 2.4% increase in base rates over three years.