



*Bryan Texas Utilities*

Rural Electric System

**Annual Financial Statements**

For the Fiscal Years Ended September 30, 2014 and 2013

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**Bryan Texas Utilities**  
**Rural Electric System**  
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For the Fiscal Years Ended September 30, 2014 and 2013

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**Bryan Texas Utilities  
Rural Electric System**

**Introduction**

Bryan Texas Utilities (BTU) is pleased to present the Annual Financial Report for the fiscal years ended September 30, 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 accounting and reporting purposes. BTU’s Rural Electric System purchases all of its energy from the City Electric System. BTU’s common staff is employed by the City Electric System and is either direct billed to the Rural Electric System or is billed through the City Electric System’s purchased power rates. Generally, all power supply, customer service and administrative services are billed through purchased power rates, while distribution services are direct billed. Rural purchased power rates are established through City of Bryan ordinance. The accompanying financial statements present only the Rural Electric System and are not intended to present the financial position or results of operations of the City Electric System or the City of Bryan, Texas.

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

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

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





*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rural Electric System of BTU of the City of Bryan, Texas' 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

**Bryan Texas Utilities  
Rural Electric System**

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

This discussion and analysis of the Rural Electric System financial performance provides an overview of financial activities for the years ended September 30, 2014 and 2013. Please read this information in conjunction with the accompanying financial analysis, the financial report, and the notes to financial statements.

**Overview of Annual Financial Report**

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

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

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

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

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

**Bryan Texas Utilities**  
**Rural Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2014 and 2013  
(Unaudited)

**Financial Analysis**

BTU's Rural Electric System's condensed statements of net position at September 30, are as follows:

**Condensed Statements of Net Position**

	<b><u>2014</u></b>	<b><u>2013</u></b> <b>as restated*</b>
Current assets	\$ 10,957,678	\$ 9,081,913
Capital assets, net	58,058,918	51,378,471
Restricted assets	4,987,739	9,759,115
Other	26,704	58,245
Total assets	<u>74,031,039</u>	<u>70,277,744</u>
Current liabilities	4,858,014	3,071,737
Current liabilities payable from restricted assets	2,843,370	5,072,254
Noncurrent liabilities	12,470,082	13,173,459
Total liabilities	<u>20,171,466</u>	<u>21,317,450</u>
Deferred inflows	4,612,158	2,201,729
Net position:		
Net investment in capital assets	42,673,309	40,240,215
Restricted	447,737	449,931
Unrestricted	6,126,369	6,068,419
Total net position	<u>\$ 49,247,415</u>	<u>\$ 46,758,565</u>

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



**Bryan Texas Utilities  
Rural Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2014 and 2013  
(Unaudited)

BTU's Rural Electric System's 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**

	<b>FY2014</b>	<b>FY2013 as restated</b>
Operating revenues	\$ 35,728,300	\$ 32,257,374
Operating expenses	32,787,741	29,218,722
Operating income	2,940,559	3,038,652
Investment income	73,213	47,422
Interest expense	(524,922)	(515,752)
Change in net position	2,488,850	2,570,322
Net position, beginning of period - as restated	46,758,565	44,188,243
Net position, end of period	<u>\$ 49,247,415</u>	<u>\$ 46,758,565</u>

**Financial Highlights**

- The Rural Electric System's retail customer base totaled 18,328 and 17,556 customers at September 30, 2014 and 2013, respectively, an increase of 4.4%.
- Retail energy sales were 385,840 MWh and 352,828 MWh during the fiscal years ended September 30, 2014 and 2013, respectively, an increase of 9.4%, due primarily to customer growth and colder than normal winter weather during the fiscal year ended September 30, 2014.
- Operating revenues for fiscal years ended September 30, 2014 and 2013 were \$35,728,300 and \$32,257,374, respectively, an increase of 10.8%. The increase is primarily attributable to higher retail sales in 2014 as described above.
- Operating expenses for the fiscal years ended September 30, 2014 and 2013 were \$32,787,741 and \$29,218,722, respectively, an increase of 12.2%. The increase was primarily due to higher purchased power expense in 2014 due to larger sales as described above.
- Net position for the fiscal years ended September 30, 2014 and 2013 were \$49,247,415 and \$46,758,565, respectively. The increase of 5.3% was primarily the result of higher retail sales.
- The Rural Electric System net utility plant was \$58,058,918 and \$51,378,471 for the fiscal years ended September 30, 2014 and 2013, respectively, an increase of 13.0%. The increase in capital assets is primarily the result of construction expenditures supporting new customer growth.

**Bryan Texas Utilities**  
**Rural Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2014 and 2013  
(Unaudited)

**General Trends and Significant Events**

Long-Term Debt -

The Rural Electric System did not issue debt in the fiscal year ended September 30, 2014. On July 23, 2013, the City of Bryan issued certificates of obligation ("2013 Certificates") totaling \$5,600,000 for the Rural Electric System. The 2013 Certificates mature serially on August 15, 2014, through August 15, 2033, with coupon rates ranging from 3.00% to 4.25%. The proceeds from the sale of the 2013 Certificates are restricted to costs associated with the acquisition, construction, replacement, and repair of substations, feeders, and other distribution improvements to the Rural Electric System.

Economic Growth -

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

Rates -

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

**Subsequent Events**

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

**Bryan Texas Utilities**  
**Rural Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2014 and 2013  
(Unaudited)

**Requests for Information**

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

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BTU General Manager:  
Gary Miller

BTU Group Managers:  
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**  
**Rural Electric System**  
Statements of Net Position  
At September 30, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u> <u>as restated</u>
Current assets:		
Cash and cash equivalents	\$ 7,047,484	\$ 5,547,343
Accounts receivable	3,950,314	3,692,430
Less allowance for uncollectible accounts	(141,452)	(157,860)
Under-recovered regulatory fee	101,332	-
Total current assets	10,957,678	9,081,913
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	3,010,189	6,758,928
Investments	1,977,550	3,000,187
Capital assets	83,620,004	74,866,129
Less accumulated depreciation	(25,561,086)	(23,487,658)
Other noncurrent assets	26,704	58,245
Total noncurrent assets	63,073,361	61,195,831
Total assets	\$ 74,031,039	\$ 70,277,744

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

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

	<b>2014</b>	<b>2013</b> <b>as restated</b>
<b><u>Liabilities</u></b>		
Current liabilities:		
Accounts payable	\$ 772,089	\$ 263,600
Accrued liabilities	131,034	79,393
Due to other funds	3,880,784	2,669,756
Other current liabilities	74,107	58,988
Total current liabilities	4,858,014	3,071,737
Current liabilities payable from restricted assets:		
Accrued interest	111,612	102,675
Over-recovered fuel	1,050,578	3,419,677
Bonds - current portion	690,000	675,000
Customer deposits	991,180	874,902
Total current liabilities payable from restricted assets	2,843,370	5,072,254
Non-current liabilities:		
Bonds payable	12,315,000	13,005,000
Bond premiums	155,082	168,459
Total noncurrent liabilities	12,470,082	13,173,459
Total liabilities	20,171,466	21,317,450
<b><u>Deferred Inflows</u></b>		
Deferred regulatory liability	4,612,158	2,201,729
<b><u>Net Position</u></b>		
Net investment in capital assets	42,673,309	40,240,215
Restricted for debt service	447,737	449,931
Unrestricted	6,126,369	6,068,419
Total net position	\$ 49,247,415	\$ 46,758,565

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

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

	<b>FY2014</b>	<b>FY2013 as restated</b>
Operating revenues:		
Electrical system	\$ 35,728,300	\$ 32,257,374
Total operating revenues	35,728,300	32,257,374
Operating expenses:		
Personnel services	491,056	369,362
Electric operations	29,234,606	26,117,623
Maintenance	617,212	573,661
General and administrative	159,881	170,563
Depreciation	2,284,986	1,987,513
Total operating expenses	32,787,741	29,218,722
Operating income	2,940,559	3,038,652
Non-operating revenues (expenses):		
Investment income	73,213	47,422
Interest expense	(524,922)	(515,752)
Total non-operating revenues (expenses)	(451,709)	(468,330)
Increase in net position	2,488,850	2,570,322
Net position, beginning of period - as restated	46,758,565	44,188,243
Net position, end of period	\$ 49,247,415	\$ 46,758,565

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

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

	<b>FY2014</b>	<b>FY2013 as restated</b>
<b><u>Cash flows from operating activities</u></b>		
Receipts from customers	\$ 35,568,046	\$ 32,251,061
Payments to suppliers	(31,901,973)	(26,307,428)
Payments to employees	(439,415)	(389,412)
Net cash provided by operating activities	3,226,658	5,554,221
<b><u>Cash flows from capital and related financing activities</u></b>		
Purchases of capital assets	(5,371,110)	(6,415,953)
Proceeds from capital debt	-	5,652,871
Principal paid on capital debt	(675,000)	(445,000)
Interest paid on capital debt	(528,037)	(392,387)
Net cash used by capital and related financing activities	(6,574,147)	(1,600,469)
<b><u>Cash flows from investing activities</u></b>		
Proceeds from sales and maturities of investments	3,000,000	-
Purchases of investments	(1,971,618)	-
Interest and dividends received	70,509	42,459
Net cash provided by investing activities	1,098,891	42,459
Net increase (decrease) in cash and cash equivalents	(2,248,598)	3,996,211
Balance-beginning of the year	12,306,271	8,310,060
Balance-end of the year	\$ 10,057,673	\$ 12,306,271
<b><u>Reconciliation of ending cash balance</u></b>		
Cash and cash equivalents	\$ 7,047,484	\$ 5,547,343
Cash and cash equivalents – restricted	3,010,189	6,758,928
Balances-end of year	\$ 10,057,673	\$ 12,306,271

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

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

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

	<u>FY2014</u>	<u>FY2013</u> <u>as restated</u>
Operating income	\$ 2,940,559	\$ 3,038,652
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,284,986	1,987,513
Bad debts	29,411	38,598
Change in assets and liabilities:		
Accounts receivable	(276,533)	(104,151)
Under-recovered regulatory fee	(101,332)	-
Accounts payable	313,815	(65,694)
Accrued liabilities	51,640	(20,050)
Over-recovered fuel	(2,369,098)	(686,965)
Customer deposits	116,278	97,838
Due to other funds	236,932	1,268,481
Net cash provided by operating activities	<u>\$ 3,226,658</u>	<u>\$ 5,554,221</u>

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



**Bryan Texas Utilities**  
**Rural Electric System**  
Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2014 and 2013

1. Summary of Significant Accounting Policies

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

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

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

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

New Accounting Pronouncements, Changes in Accounting Principles and Restatements - During the fiscal year ended September 30, 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 Rural 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.

**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2014 and 2013

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:

	<b>2013</b>
Net Position, beginning of period - as previously reported	\$ 44,465,094
Reduction of unamortized debt issuance costs	(276,851)
Net Position, beginning of period - as restated	\$ 44,188,243

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:

	<b>2013</b>
Change in Net Position - as previously reported	\$ 2,721,063
Increase in interest expense	(150,741)
Change in Net Position - as restated	\$ 2,570,322

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

During 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 Rural Electric System does not engage in any SCA's, and as such, there was no impact on the Rural Electric System financial statements as a result of this implementation.
- GASB Statement No. 61, *The Financial Reporting Entity Omnibus*. This statement amends GASB Statements No. 14 and No. 34 and modifies certain requirements for inclusion of component units within the financial statements of governmental entities. There was no impact on the Rural Electric System's financial statements as a result of this implementation.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance from the FASB and the AICPA, issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. There was no impact on the Rural Electric System's financial statements as a result of this guidance.

**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2014 and 2013

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources; defined as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively, which are distinct from assets and liabilities. The statement also identifies net position as the residual of all other elements presented in a statement of financial position. Other than a change in presentation, there was no impact on the Rural Electric System's financial statements from implementation of this guidance.

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

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting guidance related to government combinations and disposals of government operations. The term *government combinations* refer to a variety of transactions and may be mergers, acquisitions, or transfers of operations. This standard sets forth definitions of each of these transaction types and sets forth the specific accounting and reporting treatment to be given for each. The statement also provides accounting and reporting guidance for disposals of government operations that have been sold or transferred. The requirements of this statement will be applied prospectively, beginning in the period of adoption. The effect of this guidance on the Rural Electric System will be limited to its impact on recognition of potential combination and disposal transactions into which the Rural Electric System may enter in the future. Adoption of this statement is required for the Rural Electric System for the fiscal year ended September 30, 2015.

Restricted Funds

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

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

Utility Revenues, Fuel Recovery, and Regulatory Recovery - Customers are billed on the basis of monthly cycle billings. At fiscal year end, the Rural Electric System accrues estimated unbilled revenues (excluding fuel). The Rural Electric System is allowed to recover purchased power cost through fuel revenue rates. The difference between fuel revenues billed and fuel expense incurred is recorded as an addition or a reduction to fuel and purchased power expense, with a corresponding entry to accounts payable - over recovered fuel or accounts receivable - under recovered fuel, whichever is appropriate. At September 30, 2014 and 2013, the Rural Electric System reflected a current liability – over recovered fuel of \$1,050,578 and \$3,419,677, respectively.

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

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2014 and 2013

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 Rural Electric System reported a current asset – under recovered regulatory fee of \$101,332. At September 30, 2013, the regulatory charge was not separated from the base rate charge.

Capital Assets - Capital assets are stated at the historical cost. Also, to the extent the construction is performed by the Rural Electric System, the cost includes payroll and related costs and certain general and administrative expenses. Assets constructed utilizing funds collected from customers and developers as contributions of aid in construction (AIC) are also capitalized. Interest is not capitalized in these accounts because interest is recovered concurrently in the utility rate structure. Maintenance, repairs and minor replacements are charged to operating expense, while major property replacements are capitalized. Except for certain assets that may become impaired, the cost of depreciable plant retired, plus removal cost and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, any losses associated with capital asset impairments will be charged to operations, not accumulated depreciation. Depreciation is recorded on a straight-line basis over estimated service lives ranging from 5 to 40 years.

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

Bond Issuance Expenses - 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 \$171,486 for the fiscal year ended September 30, 2013. For the fiscal year ended September 30, 2014, the Rural 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 Rural 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 Rural 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 ending September 30, 2013.

Reclassifications – Certain reclassifications have been made to the prior period's financial statements in order to conform them to the classification used in the current year. Such reclassifications had no effect on the change in net position as previously reported.

**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2014 and 2013

2. Cash and Investments

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

Deposits

State statutes require that all deposits in financial institutions be fully collateralized with depository insurance or by U.S. Government obligations or its agencies and instrumentalities; or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The Rural Electric System demand deposits for the fiscal years ended September 30, 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 laws, by various City ordinances, and by City of Bryan investment policy which prescribes how the Rural Electric System will operate its investment program in accordance with applicable laws and regulations.

The City's policy, which was adopted on 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;

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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2014 and 2013

- 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 Rural Electric System’s cash, cash equivalents and investments at September 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Demand deposits	\$ 10,057,673	\$ 12,306,271
Investments in agency securities	1,977,550	3,000,187
Total	\$ 12,035,223	\$ 15,306,458

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 Rural Electric System does not hold foreign investments, foreign currency risk is not discussed.

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2014 and 2013

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

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>Greater Than 5</u>
Investment in agency securities	\$ 1,977,550	\$ -	\$ 1,977,550	\$ -
Total fair value	<u>\$ 1,977,550</u>	<u>\$ -</u>	<u>\$ 1,977,550</u>	<u>\$ -</u>

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

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

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

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

**Restricted Cash and Investments**

In 2014, cash and investments of \$12.0 million exceeded amounts required to be restricted by \$7.0 million. Amounts required to be restricted at September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Debt service	\$ 248,307	\$ 241,563
Debt reserve	311,042	311,042
Bond funds for construction	2,386,632	4,911,931
Over-recovered fuel	1,050,578	3,419,677
Customer deposits	991,180	874,902
Restricted cash and investments	<u>\$ 4,987,739</u>	<u>\$ 9,759,115</u>

**Bryan Texas Utilities  
Rural Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2014 and 2013

3. Capital Assets

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

Impairments – BTU annually evaluates capital assets as required by GASB Statement No. 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The statement provides guidance for determining if any assets have been impaired and for calculating the appropriate write-downs in value for any assets found to be impaired. An internal company-wide review of capital assets, in accordance with GASB 42, concluded that the Rural Electric System had no impaired capital assets at September 30, 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	\$ 111,483	\$ -	\$ -	\$ 111,483
Construction in Progress	6,581,700	6,704,718	11,004,073	2,282,345
Total capital assets, not being depreciated	6,693,183	6,704,718	11,004,073	2,393,828
Capital assets, being depreciated:				
Distribution Plant	65,590,968	10,665,131	166,462	76,089,637
General Plant	2,581,978	2,554,561	-	5,136,539
Total capital assets, being depreciated	68,172,946	13,219,692	166,462	81,226,176
Less accumulated depreciation for:				
Distribution Plant	23,307,463	2,073,621	166,462	25,214,622
General Plant	180,195	166,269	-	346,464
Total accumulated depreciation	23,487,658	2,239,890	166,462	25,561,086
Total capital assets, being depreciated, net	44,685,288	10,979,802	-	55,665,090
Total capital assets, net	<u>\$ 51,378,471</u>	<u>\$ 17,684,520</u>	<u>\$ 11,004,073</u>	<u>\$ 58,058,918</u>

Depreciation totals \$2,284,986 and \$1,987,513, for the fiscal years ended September 30, 2014 and 2013, respectively



**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2014 and 2013

4. Long-Term Debt

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

The Rural Electric System did not issue debt in the 2014 fiscal year. On July 23, 2013, the City of Bryan issued certificates of obligation (“2013 Certificates”) totaling \$5,600,000 for the Rural Electric System. The 2013 Certificates mature serially on August 15, 2014, through August 15, 2033, with coupon rates ranging from 3.00% to 4.25%. The proceeds from the sale of the 2013 Certificates are restricted to costs associated with the acquisition, construction, replacement, and repair of substations, feeders, and other distribution improvements to the Rural Electric System.

At September 30, 2014, there was \$13,005,000 of Rural Electric System long-term debt, consisting of revenue bonds and certificates of obligation; payable from revenues of the Rural Electric System.

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

	<b>Interest Rates (%)</b>	<b>Series Matures</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due in One Year</b>
<u>Revenue Bonds:</u>							
Series 2008	3.50 – 4.75	2034	\$ 5,575,000	\$ -	\$ 175,000	\$ 5,400,000	\$ 180,000
Series 2011	2.00 – 4.00	2021	2,505,000	-	285,000	2,220,000	295,000
Total Revenue Bonds			8,080,000	-	460,000	7,620,000	475,000
<u>Certificates of Obligation:</u>							
Series 2013	3.00 – 4.25	2033	5,600,000	-	215,000	5,385,000	215,000
Total Certificates of Obligation			5,600,000	-	215,000	5,385,000	215,000
Total long-term debt			\$ 13,680,000	\$ -	\$ 675,000	\$ 13,005,000	\$ 690,000

All net revenues of the Rural Electric System are pledged for the payment of debt service of the revenue bonds. Net revenues, as defined by the bond resolution include all of the revenues and expenses of the Rural Electric System other than depreciation and amortization expenses. The bond resolutions further require that the net revenues, as defined, equal at least 1.20 times the average annual debt service on all revenue bonds. The Rural Electric System is in compliance with these requirements at September 30, 2014 and 2013.

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

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2014 and 2013

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

<b><u>Revenue Bonds</u></b>			
<b><u>Year Ending September 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2015	\$ 475,000	\$ 306,800	\$ 781,800
2016	485,000	294,600	779,600
2017	495,000	280,625	775,625
2018	515,000	265,400	780,400
2019	530,000	247,950	777,950
2020-2024	1,855,000	961,894	2,816,894
2025-2029	1,445,000	639,475	2,084,475
2030-2034	1,820,000	267,663	2,087,663
Total	<u>\$ 7,620,000</u>	<u>\$ 3,264,407</u>	<u>\$ 10,884,407</u>

<b><u>Certificates of Obligation</u></b>			
<b><u>Year Ending September 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2015	\$ 215,000	\$ 207,859	\$ 422,859
2016	220,000	201,409	421,409
2017	225,000	194,809	419,809
2018	230,000	188,059	418,059
2019	230,000	178,859	408,859
2020-2024	1,270,000	749,694	2,019,694
2025-2029	1,520,000	494,094	2,014,094
2030-2034	1,475,000	158,331	1,633,331
Total	<u>\$ 5,385,000</u>	<u>\$ 2,373,114</u>	<u>\$ 7,758,114</u>

In the Statement 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 \$524,922 and \$515,752, respectively, is included as a non-operating expense.

5. **Risk Management**

The Rural Electric System is covered for risk of losses related to general liability and worker's compensation through the City's risk management program. The City has established an Insurance Fund whereby the costs of providing claims servicing and claims payment are funded by charging a premium based upon a percentage of estimated current year payroll and management's estimate of projected current costs. For the fiscal years ended September 30, 2014 and 2013, the Rural Electric System paid the City \$97,825 and \$96,374, respectively, for participation in the City's risk management program.

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2014 and 2013

6. Related Party Transactions

BTU's Rural Electric System purchases all of its energy from the City Electric System. BTU's common staff is employed by the City Electric System and is either direct billed to the Rural Electric System or is billed through the City Electric System's purchased power rates. Generally, all power supply, customer service 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.

7. Subsequent Events

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