



Bryan Texas Utilities

Rural Electric System

Annual Financial Report

For the Fiscal Years Ended September 30, 2015 and 2014

Bryan Texas Utilities
Rural Electric System
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For the Fiscal Years Ended September 30, 2015 and 2014

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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, 2015 and 2014. 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.



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Rural Electric System of Bryan Texas Utilities (BTU) of the City of Bryan, Texas, as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Rural Electric System'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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Rural Electric System of BTU of the City of Bryan, Texas, as of September 30, 2015 and 2014, and the respective changes in financial position and its cash flows 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 Rural Electric System of BTU, and do not purport to, and do not present fairly the financial position of the City Electric System of BTU, or the City of Bryan, Texas, as of September 30, 2015 and 2014, and the respective changes in their financial position and their cash flows 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.

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 5-10 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.

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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 21, 2015

**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, 2015 and 2014. 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, 2015 and 2014
(Unaudited)

Condensed Statements of Net Position

	September 30,		
	2015	2014	2013
			Restated
Current assets	\$ 11,302,049	\$ 10,957,678	\$ 9,081,913
Capital assets, net	64,415,669	58,058,918	51,378,471
Restricted assets	2,312,495	4,987,739	9,759,115
Other	7,910	26,704	58,245
Total assets	78,038,123	74,031,039	70,277,744
Current liabilities	5,798,256	4,858,014	3,071,737
Current liabilities payable from restricted assets	1,833,884	2,843,370	5,072,254
Noncurrent liabilities	11,751,705	12,470,082	13,173,459
Total liabilities	19,383,845	20,171,466	21,317,450
Deferred inflows	6,258,505	4,612,158	2,201,729
Net position:			
Net investment in capital assets	46,433,208	42,673,309	40,240,215
Restricted	450,862	447,737	449,931
Unrestricted	5,511,703	6,126,369	6,068,419
Total net position	\$ 52,395,773	\$ 49,247,415	\$ 46,758,565

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Fiscal Year Ended September 30,		
	2015	2014	2013
			Restated
Operating revenues	\$ 39,287,075	\$ 35,728,300	\$ 32,257,374
Operating expenses	35,717,091	32,787,741	29,218,722
Operating income	3,569,984	2,940,559	3,038,652
Investment income	75,800	73,213	47,422
Interest expense	(497,426)	(524,922)	(515,752)
Change in net position	3,148,358	2,488,850	2,570,322
Net position, beginning of period	49,247,415	46,758,565	44,188,243
Net position, end of period	\$ 52,395,773	\$ 49,247,415	\$ 46,758,565

Bryan Texas Utilities
Rural Electric System
Management's Discussion and Analysis - continued
For the Fiscal Years Ended September 30, 2015 and 2014
(Unaudited)

Customer Count

FY2015 - The Rural Electric System's retail customer base of 19,068 increased by 740 customers, or 4.0%, compared to FY2014. The economy in the local area continues to grow which has caused the Rural Electric System's service territory to expand; especially, in new subdivisions south of the City of College Station service area and in surrounding areas of Brazos County.

FY2014 - The Rural Electric System's retail customer base of 18,328 increased by 772 customers, or 4.4%, compared to 17,556 customers as of September 30, 2013. Subdivisions expanding south of the City of College Station service area and increased oil and gas exploration activity in north Brazos County expanded the Rural Electric System's service territory.

Retail Sales

FY2015 - Retail energy sales of 405,407 MWh increased by 19,567 MWh, or 5.1%, compared to FY2014; due primarily to customer growth and colder than normal winter weather during the fiscal year ended September 30, 2015.

FY2014 - Retail energy sales of 385,840 MWh increased by 33,012 MWh, or 9.4%, compared to 352,828 MWh in FY2013; due primarily to customer growth and colder than normal winter weather during the fiscal year ended September 30, 2014.

Operating Revenue

FY2015 - Operating revenues of \$39,287,075 were \$3,558,775, or 10.0%, above the FY2014 total of \$35,728,300. The increase was primarily attributable to the following activity:

	Impact (\$ millions)
Base revenue (higher rates, customer growth, weather)	\$ 3.1
Regulatory revenue (higher rates, customer growth, weather)	1.1
Lower fuel revenues	(0.6)
Total	\$ 3.6

FY2014 - Operating revenues of \$35,728,300 were \$3,470,926, or 10.8%, above the FY2013 total of \$32,257,374. The increase was primarily attributable to the following activity:

	Impact (\$ millions)
Base revenue (customer growth offset by rate reduction)	\$ (0.3)
Regulatory revenue (new component of retail rates)	2.8
Higher fuel revenues	1.0
Total	\$ 3.5

**Bryan Texas Utilities
Rural Electric System**
Management's Discussion and Analysis - continued
For the Fiscal Years Ended September 30, 2015 and 2014
(Unaudited)

Operating Expenses

FY2015 - Operating expenses of \$35,717,091 were \$2,929,350, or 8.9%, above the FY2014 total of \$32,787,741. The increase was primarily attributable to the following activity:

	Impact (\$ millions)
Increased purchased power costs	\$ 2.4
Increased regulatory charges	1.1
Lower fuel costs	(0.6)
Total	\$ 2.9

FY2014 - Operating expenses of \$32,787,741 were \$3,569,019, or 12.2%, above the FY2013 total of \$29,218,722. The increase was primarily attributable to the following activity:

	Impact (\$ millions)
Lower purchased power costs	\$ (0.6)
Regulatory costs (new wholesale rate design)	2.8
Higher fuel costs	1.0
All other	0.4
Total	\$ 3.6

Capital Assets

FY2015 - Net utility plant at September 30, 2015, of \$64,415,669 was \$6,356,751, or 10.9%, higher than the balance of \$58,058,918 at September 30, 2014. The increase in capital assets was primarily the result of construction expenditures supporting continued customer growth.

FY2014 - Net utility plant at September 30, 2014, of \$58,058,918 was \$6,680,447, or 13%, higher than the balance of \$51,378,471 at September 30, 2014. The increase in capital assets was primarily the result of construction expenditures supporting continued customer growth.

Significant Events

Long-Term Debt -

The Rural Electric System did not issue debt in the fiscal years ended September 30, 2015 or 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.

Bryan Texas Utilities
Rural Electric System
Management's Discussion and Analysis - continued
For the Fiscal Years Ended September 30, 2015 and 2014
(Unaudited)

Rates -

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 an 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.

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 separated a regulatory charge from base electric rates. Beginning on October 1, 2013, 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

Electric Rates –

On October 1, 2015, the City Electric System implemented phase two of a three phase wholesale electric rate adjustment billable to the Rural Electric System. Simultaneously, the Rural Electric System implemented an electric rate adjustment for its retail customers. After the third phase, to be effective on October 1, 2016, base rates would have increased 9.9% over the prior three years.

Power Supply Adjustment –

On October 1, 2015, the Rural Electric System increased the Power Supply Adjustment (PSA) component of electric rates for its retail customers. The PSA is used to recover fuel costs, net purchased power costs, and adjustments for the over or under recovery for such costs from preceding periods. The Rural Electric System increased the PSA \$0.0050/kWh (16.5%) for its retail customers to eliminate the projected under recovery of fuel and purchased power costs.

Regulatory Charge Adjustment –

On October 1, 2015, the Rural Electric System increased the Regulatory Charge (RC) component of electric rates for its retail customers. The RC is used to recover the Rural Electric System's share of BTU's full cost of the Wholesale Transmission Service Charges as established by the Public Utility Commission of Texas and for other fees assessed by regulatory bodies. The Rural Electric System increased the RC 20% for all its retail customers to eliminate the projected under recovery of regulatory costs.

**Bryan Texas Utilities
Rural Electric System**
Management's Discussion and Analysis - continued
For the Fiscal Years Ended September 30, 2015 and 2014
(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/>

BTU General Manager:
Gary Miller

BTU Group Managers:
Randy Trimble
David Werley

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

Bryan Texas Utilities
Rural Electric System
Statements of Net Position
At September 30, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 5,859,226	\$ 7,047,484
Accounts receivable	4,404,707	3,950,314
Less allowance for uncollectible accounts	(130,879)	(141,452)
Under-recovered fuel	1,030,124	-
Under-recovered regulatory fee	138,871	101,332
Total current assets	<u>11,302,049</u>	<u>10,957,678</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	308,635	3,010,189
Investments	2,003,860	1,977,550
Capital assets	92,236,838	83,620,004
Less accumulated depreciation	(27,821,169)	(25,561,086)
Other noncurrent assets	7,910	26,704
Total noncurrent assets	<u>66,736,074</u>	<u>63,073,361</u>
Total assets	<u><u>\$ 78,038,123</u></u>	<u><u>\$ 74,031,039</u></u>

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	\$ 715,530	\$ 772,089
Accrued liabilities	152,948	131,034
Due to other funds	4,858,109	3,880,784
Other current liabilities	<u>71,669</u>	<u>74,107</u>
Total current liabilities	<u>5,798,256</u>	<u>4,858,014</u>
Current liabilities payable from restricted assets:		
Accrued interest	107,756	111,612
Over-recovered fuel	-	1,050,578
Bonds - current portion	705,000	690,000
Customer deposits	<u>1,021,128</u>	<u>991,180</u>
Total current liabilities payable from restricted assets	<u>1,833,884</u>	<u>2,843,370</u>
Non-current liabilities:		
Bonds payable	11,610,000	12,315,000
Bond premiums	<u>141,705</u>	<u>155,082</u>
Total noncurrent liabilities	<u>11,751,705</u>	<u>12,470,082</u>
Total liabilities	<u>\$ 19,383,845</u>	<u>\$ 20,171,466</u>
<u>Deferred Inflows</u>		
Deferred regulatory liability	<u>\$ 6,258,505</u>	<u>\$ 4,612,158</u>
<u>Net Position</u>		
Net investment in capital assets	46,433,208	42,673,309
Restricted for debt service	450,862	447,737
Unrestricted	<u>5,511,703</u>	<u>6,126,369</u>
Total net position	<u>\$ 52,395,773</u>	<u>\$ 49,247,415</u>

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

**Bryan Texas Utilities
Rural Electric System**
Statements of Revenues, Expenses
And Changes in Net Position
For the Fiscal Years Ended September 30, 2015 and 2014

	<u>FY2015</u>	<u>FY2014</u>
Operating revenues:		
Electrical system	\$ 39,287,075	\$ 35,728,300
Total operating revenues	<u>39,287,075</u>	<u>35,728,300</u>
Operating expenses:		
Personnel services	486,813	491,056
Electric operations	32,094,082	29,234,606
Maintenance	513,023	617,212
General and administrative	170,909	159,881
Depreciation	2,452,264	2,284,986
Total operating expenses	<u>35,717,091</u>	<u>32,787,741</u>
Operating income	3,569,984	2,940,559
Non-operating revenues (expenses):		
Investment income	75,800	73,213
Interest expense	(497,426)	(524,922)
Total non-operating revenues (expenses)	<u>(421,626)</u>	<u>(451,709)</u>
Increase in net position	3,148,358	2,488,850
Net position, beginning of period	<u>49,247,415</u>	<u>46,758,565</u>
Net position, end of period	<u><u>\$ 52,395,773</u></u>	<u><u>\$ 49,247,415</u></u>

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

**Bryan Texas Utilities
Rural Electric System**
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2015 and 2014

	<u>FY2015</u>	<u>FY2014</u>
<u>Cash flows from operating activities</u>		
Receipts from customers	\$ 38,707,792	\$ 35,568,046
Payments to suppliers	(33,882,043)	(31,901,973)
Payments to employees	<u>(467,337)</u>	<u>(439,415)</u>
Net cash provided by operating activities	<u>4,358,412</u>	<u>3,226,658</u>
<u>Cash flows from capital and related financing activities</u>		
Purchases of capital assets	(7,091,923)	(5,371,110)
Principal paid on capital debt	(690,000)	(675,000)
Interest paid on capital debt	<u>(540,969)</u>	<u>(528,037)</u>
Net cash used by capital and related financing activities	<u>(8,322,892)</u>	<u>(6,574,147)</u>
<u>Cash flows from investing activities</u>		
Proceeds from sales and maturities of investments	-	3,000,000
Purchases of investments	-	(1,971,618)
Interest and dividends received	<u>74,668</u>	<u>70,509</u>
Net cash provided by investing activities	<u>74,668</u>	<u>1,098,891</u>
Net decrease in cash and cash equivalents	(3,889,812)	(2,248,598)
Balance-beginning of the year	<u>10,057,673</u>	<u>12,306,271</u>
Balance-end of the year	<u><u>\$ 6,167,861</u></u>	<u><u>\$ 10,057,673</u></u>
<u>Reconciliation of ending cash balance</u>		
Cash and cash equivalents	\$ 5,859,226	\$ 7,047,484
Cash and cash equivalents – restricted	<u>308,635</u>	<u>3,010,189</u>
Balances-end of year	<u><u>\$ 6,167,861</u></u>	<u><u>\$ 10,057,673</u></u>

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

**Bryan Texas Utilities
Rural Electric System**
Statements of Cash Flows - continued
For the Fiscal Years Ended September 30, 2015 and 2014

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

	<u>FY2015</u>	<u>FY2014</u>
Operating income	\$ 3,569,984	\$ 2,940,559
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,452,264	2,284,986
Bad debts	25,324	29,411
Change in assets and liabilities:		
Accounts receivable	(470,361)	(276,533)
Under-recovered regulatory fee	(37,539)	(101,332)
Under-recovered fuel	(1,030,124)	-
Accounts payable	(184,363)	313,815
Accrued liabilities	19,476	51,640
Over-recovered fuel	(1,050,578)	(2,369,098)
Customer deposits	29,948	116,278
Due to other funds	1,034,381	236,932
Net cash provided by operating activities	<u><u>\$ 4,358,412</u></u>	<u><u>\$ 3,226,658</u></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, 2015 and 2014

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, 2015, BTU adopted the following GASB pronouncement:

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. There was no impact on the financial statements from implementation of this guidance. The Rural Electric System did not engage in any combination or disposal transactions during the fiscal year ended September 30, 2015, and no such transactions are currently contemplated.

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2015 and 2014

The following guidance issued by GASB is effective for the fiscal years ended 2016, and may be applicable to the Rural Electric System:

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

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, 2015 and 2014, the Rural Electric System reflected a current asset – under recovered fuel of \$1,030,124 and current liability – over recovered fuel of \$1,050,578, 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, 2015 and 2014, the Rural Electric System reported a current asset – under recovered regulatory fee of \$138,871 and \$101,332, respectively.

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2015 and 2014

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 33 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. For the fiscal year ended September 30, 2015 and 2014, the Rural Electric System did not incur any bond issuance costs.

Deferred Regulatory Liability – To better align certain benefits received with BTU's retail rate design, the Rural Electric System utilizes regulatory accounting treatment for the funds it collects from customers and developers as contributions of aid in construction (AIC) under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. The Rural Electric System recognizes 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. During the fiscal years ended September 30, 2015 and 2014, the Rural Electric System collected \$1,841,186 and \$2,554,560, respectively, of AIC.

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, 2015 and 2014

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, 2015 and 2014 were held at Branch Banking & Trust Company. 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 August 26, 2014 for the fiscal year ending September 30, 2015, 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. Bankers Acceptances eligible for discounting with the Federal Reserve maturing within 90 days;

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2015 and 2014

- g. 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;
- h. 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;
- i. Money Market Mutual Funds that are SEC registered no-load funds with dollar-weighted average portfolio maturity of 90 days or less;
- j. Local government investment pools rated no lower than AAA or AAA-m from at least one nationally recognized rating agency;
- k. 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;
- l. 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, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Demand deposits	\$ 6,167,861	\$ 10,057,673
Investments in agency securities	2,003,860	1,977,550
Total	<u>\$ 8,171,721</u>	<u>\$ 12,035,223</u>

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.

As of September 30, 2015, the Rural Electric System had the following investments:

		Investment Maturity (in Years)		
<u>Investment Types</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>Greater Than 5</u>
Investments in agency securities	\$ 2,003,860	\$ -	\$ 2,003,860	\$ -
Total fair value	<u>\$ 2,003,860</u>	<u>\$ -</u>	<u>\$ 2,003,860</u>	<u>\$ -</u>

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2015 and 2014

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 2015, cash and investments of \$8.2 million exceeded amounts required to be restricted by \$5.9 million. Amounts required to be restricted at September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Debt service	\$ 247,576	\$ 248,307
Debt reserve	311,042	311,042
Bond funds for construction	732,749	2,386,632
Over-recovered fuel	-	1,050,578
Customer deposits	<u>1,021,128</u>	<u>991,180</u>
Restricted cash and investments	<u><u>\$ 2,312,495</u></u>	<u><u>\$ 4,987,739</u></u>

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2015 and 2014

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, 2015.

Capital asset activity for the fiscal year ended September 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 111,483	\$ -	\$ -	\$ 111,483
Construction in Progress	2,282,345	5,660,342	4,450,485	3,492,202
Total capital assets, not being depreciated	2,393,828	5,660,342	4,450,485	3,603,685
Capital assets, being depreciated:				
Distribution Plant	76,089,637	5,673,398	108,766	81,654,269
General Plant	5,136,539	1,842,520	175	6,978,884
Total capital assets, being depreciated	81,226,176	7,515,918	108,941	88,633,153
Less accumulated depreciation for:				
Distribution Plant	25,214,622	2,430,108	387,759	27,256,971
General Plant	346,464	217,734	-	564,198
Total accumulated depreciation	25,561,086	2,647,842	387,759	27,821,169
Total capital assets, being depreciated, net	55,665,090	4,868,076	(278,818)	60,811,984
Total capital assets, net	\$ 58,058,918	\$ 10,528,418	\$ 4,171,667	\$ 64,415,669

Depreciation expense for the fiscal year ended September 30, 2015 was \$2,452,264, net of amortization of the deferred regulatory liability of \$195,578. Depreciation expense for the fiscal year ended September 30, 2014 was \$2,284,986, net of amortization of the deferred regulatory liability of \$144,129.

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2015 and 2014

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 bondholders.

The Rural Electric System did not issue debt in the 2015 or 2014 fiscal years.

At September 30, 2015, there was \$12,315,000 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 2015, including current portion are as follows:

	Interest Rates (%)	Series Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
<u>Revenue Bonds:</u>							
Series 2008	3.50 – 4.75	2034	\$ 5,400,000	\$ -	\$ 180,000	\$ 5,220,000	\$ 185,000
Series 2011	2.00 – 4.00	2021	2,220,000	-	295,000	1,925,000	300,000
Total Revenue Bonds			7,620,000	-	475,000	7,145,000	485,000
<u>Certificates of Obligation:</u>							
Series 2013	3.00 – 4.25	2033	5,385,000	-	215,000	5,170,000	220,000
Total Certificates of Obligation			5,385,000	-	215,000	5,170,000	220,000
Total long-term debt			\$ 13,005,000	\$ -	\$ 690,000	\$ 12,315,000	\$ 705,000

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, 2015 and 2014.

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.

In the Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended September 30, 2015 and 2014, interest expense is recorded in the amount of \$497,426 and \$524,922, respectively, is included as a non-operating expense.

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2015 and 2014

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

Revenue Bonds

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	550,000	230,000	780,000
2021-2025	1,570,000	884,894	2,454,894
2026-2030	1,510,000	572,925	2,082,925
2031-2034	1,490,000	181,213	1,671,213
Total	<u>\$ 7,145,000</u>	<u>\$ 2,957,606</u>	<u>\$ 10,102,606</u>

Certificates of Obligation

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	240,000	169,659	409,659
2021-2025	1,310,000	701,054	2,011,054
2026-2030	1,585,000	434,694	2,019,694
2031-2033	1,130,000	96,713	1,226,713
Total	<u>\$ 5,170,000</u>	<u>\$ 2,165,254</u>	<u>\$ 7,335,254</u>

Total Debt

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 705,000	\$ 496,009	\$ 1,201,009
2017	720,000	475,434	1,195,434
2018	745,000	453,459	1,198,459
2019	760,000	426,809	1,186,809
2020	790,000	399,659	1,189,659
2021-2025	2,880,000	1,585,948	4,465,948
2026-2030	3,095,000	1,007,619	4,102,619
2031-2034	2,620,000	277,925	2,897,925
Total	<u>\$ 12,315,000</u>	<u>\$ 5,122,860</u>	<u>\$ 17,437,860</u>

**Bryan Texas Utilities
Rural Electric System**

Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2015 and 2014

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, 2015 and 2014, the Rural Electric System paid the City \$110,131 and \$97,825, respectively, for participation in the City's risk management program.

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, administrative services, and regulatory fees are billed through purchased power and regulatory charge rates, while distribution services are direct billed. Rural purchased power and regulatory charge rates are established through City ordinance. Fuel rates are adjusted monthly to reflect actual cost. For the fiscal years ended September 30, 2015 and 2014, the Rural Electric System's purchased power, fuel, and regulatory charges were the following:

	<u>FY2015</u>	<u>FY2014</u>
Purchased power cost	\$ 15,878,248	\$ 13,510,263
Fuel cost	14,360,247	15,294,826
Regulatory charges	<u>3,947,680</u>	<u>2,869,523</u>
Total	\$ 34,186,175	\$ 31,674,612

The Rural Electric System had payables to the City Electric System, as of September 30, 2015 and 2014, in the amount of \$4,858,109 and \$3,880,784 respectively.

7. Subsequent Events

On October 1, 2015, the City Electric System implemented phase two of a three phase wholesale electric rate adjustment billable to the Rural Electric System. Simultaneously, the Rural Electric System implemented an electric rate adjustment for its retail customers. After the third phase, to be effective on October 1, 2016, base rates would have increased 9.9% over the prior three years.

On October 1, 2015, the Rural Electric System increased the Power Supply Adjustment (PSA) component of electric rates for its retail customers. The PSA is used to recover fuel costs, net purchased power costs, and adjustments for the over or under recovery for such costs from preceding periods. The Rural Electric System increased the PSA \$0.0050/kWh (16.5%) for its retail customers to eliminate projected under recovery of fuel and purchased power costs.

On October 1, 2015, the Rural Electric System increased the Regulatory Charge (RC) component of electric rates for its retail customers. The RC is used to recover the Rural Electric System's share of BTU's full cost of the Wholesale Transmission Service Charges as established by the Public Utility Commission of Texas and for other fees assessed by regulatory bodies. The Rural Electric System increased the RC 20% for all its retail customers to eliminate projected under recovery of regulatory costs.