BRYAN TEXAS UTILITIES

BTU

THE DIFFERENCE IS YOU

Bryan Texas Utilities

<u>City Electric System</u>

Annual Financial Report

For the Fiscal Years Ended September 30, 2017 and 2016

Bryan Texas Utilities
City Electric System
Table of Contents
For the Fiscal Years Ended September 30, 2017 and 2016

Introduction

Bryan Texas Utilities (BTU) is pleased to present its Annual Financial Report for the fiscal years ended September 30, 2017 and 2016. This report is published to provide the BTU Board of Directors (Board), the City of Bryan, the Bondholders, representatives of financial institutions, and other interested parties detailed information concerning the financial condition of BTU.

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

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

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the City Electric System of Bryan Texas Utilities (BTU) of the City of Bryan, Texas, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the City 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 an express opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City Electric System of BTU of the City of Bryan, Texas, as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

AN INDEPENDENT MEMBER OF
BAKER TILLY INTERNATIONAL

WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City Electric System of BTU, and do not purport to, and do not present fairly the financial position of the Rural Electric System of BTU, or the City of Bryan, Texas, as of September 30, 2017 and 2016, and the respective changes in their financial position or, where applicable, 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 4-12 and required supplementary information on pages 51-53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City Electric System of BTU of the City of Bryan, Texas' basic financial statements. The introduction section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
January 12, 2018

Management's Discussion and Analysis

This discussion and analysis of the City Electric System financial performance provides an overview of financial activities for the fiscal years ended September 30, 2017 and 2016. Please read this information in conjunction with the accompanying financial analysis, the financial report, and the accompanying notes to financial statements.

Overview of Annual Financial Report

The financial statements report information about the City Electric System and its blended component unit, BTU QSE Services, Inc. The QSE exists to perform qualified scheduling services of electrical generation for BTU according to the Electric Reliability Council of Texas (ERCOT) protocols. Although the QSE is a separate legal entity, it is considered a blended component unit and is reported as if it were a part of the City Electric System.

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

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

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

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

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

Condensed Statements of Net Position

	September 30,		
	2017	**2016**	**2015**
Current assets	$ 89,598,119	$ 87,199,030	$ 82,206,093
Capital assets, net	325,181,342	297,224,234	282,513,849
Restricted assets	53,624,401	89,501,234	36,642,710
Other	-	12,426,256	20,739,694
Total assets	468,403,862	486,350,754	422,102,346
Deferred outflows	20,821,462	18,028,336	19,834,806
Current liabilities	19,245,462	16,352,603	19,037,571
Current liabilities payable from restricted assets	18,198,088	23,353,173	21,606,636
Noncurrent liabilities	261,903,294	279,395,014	219,415,190
Total liabilities	299,346,844	319,100,790	260,059,398
Deferred inflows	2,470,739	2,110,548	1,303,862
Net position:			
Net investment in capital assets	125,683,387	116,349,514	111,918,177
Restricted	9,279,540	15,965,808	22,172,233
Unrestricted	52,444,814	50,852,430	46,483,482
Total net position	$ 187,407,741	$ 183,167,752	$ 180,573,892

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

	Fiscal Year Ended September 30,		
	2017	**2016**	**2015**
Operating revenues	$ 190,064,226	$ 187,624,655	$ 186,223,521
Operating expenses	166,211,379	165,938,721	162,698,348
Operating income	23,852,847	21,685,934	23,525,173
Investment income	784,398	652,368	770,945
Interest expense	(10,241,143)	(9,351,573)	(8,761,732)
Income before operating transfers & special items	14,396,102	12,986,729	15,534,386
Special items - gain on sale of power plant equipment	-	-	505,000
Transfers, net	(10,156,113)	(10,392,869)	(9,881,598)
Changes in net position	4,239,989	2,593,860	6,157,788
Net position, beginning of period	183,167,752	180,573,892	181,551,546
Prior period adjustment - changes in net pension liability	-	-	(7,135,442)
Net position, beginning of period, restated	183,167,752	180,573,892	174,416,104
Net position, end of period	$ 187,407,741	$ 183,167,752	$ 180,573,892

Customer Count

FY2017 - The City Electric System's retail customer base of 36,819 increased by 1,103 customers, or 3.1%, compared to FY2016.

FY2016 – The City Electric System's retail customer base of 35,716 increased by 542 customers, or 1.5%, compared to FY2015.

Operating Revenue

FY2017 - Operating revenues of $190,064,226 were $2,439,571, or 1.3%, above the FY2016 total of $187,624,655. Year over year variances in operating revenue were primarily attributable to the following activity:

	Impact ($ millions)
Base revenue (customer growth offset by mild weather)	$ 0.6
Regulatory revenue (customer growth)	0.2
Higher transmission cost of service revenue	0.8
All other	0.8
Total	$ 2.4

FY2016 - Operating revenues of $187,624,655 were $1,401,134, or 0.8%, above the FY2015 total of $186,223,521. Year over year variances in operating revenue were primarily attributable to the following activity:

	Impact ($ millions)
Base revenue (mild weather offset impact of customer growth)	$ (0.6)
Fuel revenue (impact of low market rates on wholesale revenues)	(3.3)
Regulatory revenue (higher rates, customer growth)	2.3
Higher transmission cost of service revenue	3.8
All other	(0.8)
Total	$ 1.4

Operating Expenses

FY2017 - Operating expenses of $166,211,379 were $272,658, or .2%, above the FY2016 total of $165,938,721. Year over year variances in operating expenses were primarily attributable to the following activity:

	Impact ($ millions)
Decreased TMPA demand charges	$ (1.6)
Transmission cost of service increases	0.2
Lower departmental operating & maintenance expenses	(0.2)
Higher depreciation	1.9
Total	$ 0.3

FY2016 - Operating expenses of $165,938,721 were $3,240,373, or 2.0%, above the FY2015 total of $162,698,348. Year over year variances in operating expenses were primarily attributable to the following activity:

	Impact ($ millions)
Increased TMPA demand charges	$ 2.8
Transmission cost of service increases	2.3
Lower fuel and purchased power costs	(3.3)
All other	1.4
Total	$ 3.2

Capital Assets

FY2017 - Net utility plant at September 30, 2017, of $325,181,342 was $27,957,108, or 9.4%, higher than the balance of $297,224,234 at September 30, 2016. The increase in capital assets was primarily the result of transmission and distribution construction expenditures supporting continued customer growth and reliability.

FY2016 - Net utility plant at September 30, 2016, of $297,224,234 was $14,710,385, or 5.2%, higher than the balance of $282,513,849 at September 30, 2015. The increase in capital assets was primarily the result of transmission and distribution construction expenditures supporting continued customer growth and reliability.

Net Position

FY2017 - Net position at September 30, 2017, was $187,407,741, of which $52,444,814 was available to meet the City Electric System's ongoing obligations. The change in net position for the fiscal year ended September 30, 2017, was $4,239,989.

FY2016 - Net position at September 30, 2016, was $183,167,752, of which $50,852,430 was available to meet the City Electric System's ongoing obligations. The change in net position for the fiscal year ended September 30, 2016, was $2,593,860.

Significant Events

Long-Term Debt -

For the fiscal year ended September 30, 2017, the City of Bryan issued revenue refunding bonds dated June 8, 2017 ("2017 Revenue Bonds") totaling $57,225,000 for the City Electric System. The 2017 Revenue Bonds mature serially beginning July 1, 2018, through July 1, 2034, with coupon rates ranging from 3.000% to 5.000%. The proceeds from the sale of the 2017 Revenue Bonds were restricted to refunding portions of the City Electric System's outstanding bonds for debt service savings.

For the fiscal year ended September 30, 2016, the City of Bryan issued general obligation refunding bonds dated July 12, 2016 ("2016 Revenue Bonds") totaling $71,435,000 for the City Electric System. The 2016 Revenue Bonds mature serially beginning July 1, 2017, through July 1, 2041, with coupon rates ranging from 3.000% to 5.000%. The proceeds from the sale of the 2016 Revenue Bonds are restricted to acquisition or construction of improvements, additions, or extensions to the City Electric System; capital assets, facilities, and equipment incident and related to the operation, maintenance, or administration of the City Electric System; and refunding portions of City Electric System's outstanding bonds for debt service savings.

At September 30, 2017, there was $191,180,000, $31,995,000, and $6,275,000 of City Electric System revenue bonds, certificates of obligation, and general obligation refunding bonds, respectively, outstanding payable from revenues of the City Electric System.

At September 30, 2016, there was $212,820,000, $33,020,000, and $7,005,000 of City Electric System revenue bonds, certificates of obligation, and general obligation refunding bonds, respectively, outstanding payable from revenues of the City Electric System.

Rates –

On October 1, 2015 & October 1, 2016, BTU implemented phases two and three of a three phase electric rate adjustment for the City Electric System which includes City of Bryan retail customers and the Rural Electric System wholesale rate. The three phases, effective on October 1, 2014, 2015, and 2016, produced an overall increase of 2.4% in base rates over three years.

On October 1, 2015, the City Electric System increased the Regulatory Charge (RC) component of its rates for retail customers and the Rural Electric System wholesale rate. The RC is used to recover 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 City Electric System increased the RC 20% for all retail customer classes and the Rural Electric System wholesale rate to eliminate the projected under recovery of regulatory costs.

On October 1, 2015, the City Electric System increased the Power Supply Adjustment (PSA) component of its rates for 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 City Electric System increased the PSA $0.0025/kWh (an average of 8.5%) for retail customers to eliminate the projected under recovery of fuel and purchased power costs.

Power Supply – Texas Municipal Power Agency (the Agency)

In anticipation of the expiration of the TMPA Member Cities' Power Sales Contract with TMPA in 2018, TMPA and the Member Cities entered into a Joint Operating Agreement ("JOA") effective September 1, 2016. The JOA replaced the previously effective Power Sales Contract. The JOA will remain in effect until the dissolution of TMPA or termination by the Member Cities. The JOA accounts for a number of issues that were not clearly addressed in the Power Sales Contract including the separation of TMPA's generation, transmission and mining operations into distinct business categories and the ability to continue operations or dispose of each separately.

In January 2016 and again in June 2017, the Agency issued requests for proposals ("RFPs") regarding the proposed sale of the Agency generation and transmission assets. Certain proposals received in connection with the 2016 RFP were pursued in 2016 and into 2017, but negotiations were ultimately discontinued. The Agency received additional proposals in the summer and fall of 2017, and at present, the Agency is reviewing proposals it received in September 2017 (collectively, the "Sale Proposal"). The Sale Proposal involves two cooperating entities, neither of which is a governmental entity. One proposer is interested in ownership of Gibbons Creek (the "Generation Proposer") and the other (the "Transmission Proposer") has expressed interest in acquiring a portion of the Agency's Transmission Facilities. The Sale Proposal is currently under evaluation by the Agency and negotiations with the Proposers have not yet commenced.

Power Supply – Other

In August 2015, during a routine inspection, BTU staff discovered a small surface crack in the Lake Bryan dam and immediately began remedial repair work. Water from Lake Bryan is used to cool BTU's Dansby 1 generating unit. Over time, the crack worsened and eventually spanned approximately 600 horizontal feet of the 17,500 feet long earthen structure. During fiscal years 2016 and 2017, the City Electric System incurred approximately $1.3 million and $7,000, respectively, in expenses to reinforce and stabilize the dam, which are reported as maintenance expenses in the Statement of Revenues, Expenses, and Changes in Net Position. Initial stabilization work was completed in February 2016. No subsequent degradation has been noted, therefore BTU expects to spend a final $600,000 in fiscal year 2018 to complete remaining finish grading and other final repairs to the dam crest and upstream slope in the crest repair area. BTU staff will continue to regularly monitor the status of the dam.

On October 6, 2015, following a resource planning study, BTU executed forward market power purchases for the years 2018 through 2022. Spread over five years, BTU transacted with four counterparties for the total purchase of approximately 949,000 MWh.

On May 24, 2017, BTU executed forward market power purchases for the years 2018 through 2022, to replace BTU's share of expected capacity from Gibbons Creek over those respective years. BTU transacted with two counterparties for the total purchase of approximately 3,905,000 MWh.

Transmission Construction -

During 2017, BTU completed several projects to the Transmission system. Notable transmission line additions include Tabor to Rayburn and Atkins to Briarcrest Phases II & III line replacements. Atkins to Briarcrest was unique in that it contained both overhead and underground portions within the three mile design. Transmission substation additions include the Kurten Ring Bus Project, Silver Hill Substation, & the Texas A&M Campus Loop-In. These projects help support the growth in BTU's service area as well as provide reliability and support to the Texas A&M campus. Transmission projects in 2017 added $16.4 million to Plant in Service in 2017.

During 2016, BTU completed construction of several major Transmission projects. Additions include Phase 1 Atkins to Briarcrest and Nall to Rayburn Line replacements, consisting of approximately 2 miles of new and upgraded transmission lines. Also in 2016, construction was substantially completed on the System Operations Center, which will house system operations and transmission personnel. The new facilities increase system reliability and allow BTU to better serve system growth. Transmission projects in 2016 added $5.6 million to Plant in Service in 2016.

Prepaid Energy Costs, Impairment of Prepaid Energy Costs and Regulatory Assets

On September 26, 2017, the TMPA brought the Gibbons Creek unit off-line and placed it into seasonal operation where it is planning to run the unit only during the 2018 summer operating season (June through September) and has no definite plans to run beyond that summer. As a result, $9.5 million of the City Electric System's Prepaid Energy Costs associated with the City Electric System debt issued in 2010 for TMPA was determined to be impaired. The City Electric System's impaired asset qualifies as a Regulatory Asset under accounting rules and will be amortized through 2019, the life of the associated debt. The remaining unimpaired $2.6 million Prepaid Energy Costs associated with TMPA are being amortized through 2018.

Other –

On July 28, 2017, BTU experienced a summer peak load of 322MW. This was just below BTU's all time high summer peak load of 323MW experienced in fiscal year 2016. BTU experienced a winter peak load of 267MW on January 6, 2017, which was higher than the fiscal year 2016 winter peak load of 224MW.

On August 11, 2016, BTU experienced an all time high summer peak load of 323MW. This was above the fiscal year 2015 summer peak load of 319MW. BTU experienced a winter peak load of 224MW on January 28, 2016, which was lower than the fiscal year 2015 winter peak load of 253MW.

The City Electric System did not transfer any amounts from the Rate Stabilization Fund for the fiscal years ended September 30, 2017 or 2016.

Requests for Information

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

BTU General Manager:
Gary Miller

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

BTU Executive Directors:
Randy Trimble
David Werley

Bryan Texas Utilities
City Electric System
Statements of Net Position
At September 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 29,291,729	$ 51,901,097
Investments	30,829,568	-
Accounts receivable	18,019,232	17,628,991
Less allowance for uncollectible accounts	(636,633)	(618,900)
Accrued interest receivable	212,869	122,690
Inventory	4,740,848	5,038,932
Due from other funds	3,138,675	3,672,858
Prepaid energy costs	2,966,570	8,300,717
Under-recovered regulatory fee	11,068	-
Other assets	1,024,192	1,152,645
Total current assets	89,598,119	87,199,030
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	314,036	51,145,986
Investments	53,310,365	38,355,248
Prepaid energy costs	-	12,426,256
Capital assets	485,545,697	449,227,825
Less accumulated depreciation	(160,364,355)	(152,003,591)
Total noncurrent assets	378,805,743	399,151,724
Total assets	$ 468,403,862	$ 486,350,754
Deferred Outflows		
Accumulated decrease in fair value of hedging derivatives	$ 6,239,244	$ 11,909,400
TMPA Regulatory Asset	9,459,686	-
Pensions	5,122,532	6,118,936
Total deferred outflows	$ 20,821,462	$ 18,028,336

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

Bryan Texas Utilities
City Electric System
Statements of Net Position - continued
At September 30, 2017 and 2016

	2017	2016
Liabilities		
Current liabilities:		
Accounts payable	$ 11,442,572	$ 9,259,608
Accrued liabilities	556,089	571,757
Due to other funds	872,272	572,056
Derivative financial instruments - current portion	5,567,140	5,234,418
Other current liabilities	807,389	714,764
Total current liabilities	19,245,462	16,352,603
Current liabilities payable from restricted assets:		
Accrued interest	2,258,597	2,332,827
Over-recovered fuel	4,132,634	4,352,049
Over-recovered regulatory fee	-	22,052
Bonds - current portion	7,500,000	12,500,000
Customer deposits	4,306,857	4,146,245
Total current liabilities payable from restricted assets	18,198,088	23,353,173
Non-current liabilities:		
Bonds payable	221,950,000	240,345,000
Bond premium, net	23,665,845	16,850,612
Derivative financial instruments	672,104	6,674,982
Net pension liability	14,846,900	14,584,858
Other post employment benefits	462,094	633,211
Other noncurrent liabilities	306,351	306,351
Total noncurrent liabilities	261,903,294	279,395,014
Total liabilities	$ 299,346,844	$ 319,100,790
Deferred Inflows		
Deferred regulatory liability	$ 2,074,126	$ 1,536,028
Pensions	396,613	574,520
Total deferred inflows	$ 2,470,739	$ 2,110,548
Net Position		
Net investment in capital assets	125,683,387	116,349,514
Restricted for:		
Debt reserve	5,618,799	9,216,230
Debt service	1,650,625	2,879,034
Rate stabilization	1,696,080	1,691,508
Collateral deposits	314,036	2,179,036
Unrestricted	52,444,814	50,852,430
Total net position	$ 187,407,741	$ 183,167,752

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

Bryan Texas Utilities
City Electric System
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended September 30, 2017 and 2016

	FY2017	FY2016
Operating revenues:		
Electrical system	$ 188,485,735	$ 186,149,563
Other	1,578,491	1,475,092
Total operating revenues	190,064,226	187,624,655
Operating expenses:		
Personnel services	12,134,272	11,380,761
Electric operations	122,918,106	125,273,722
Maintenance	3,180,363	3,185,797
Other services and charges	806,946	838,914
Other expenses	2,160,978	1,693,681
General and administrative	2,284,119	2,764,086
Depreciation and amortization	22,726,595	20,801,760
Total operating expenses	166,211,379	165,938,721
Operating income	23,852,847	21,685,934
Non-operating revenues (expenses):		
Investment income	784,398	652,368
Interest expense	(10,241,143)	(9,351,573)
Total non-operating revenues (expenses)	(9,456,745)	(8,699,205)
Income before operating transfers	14,396,102	12,986,729
Transfers:		
City of Bryan administrative payment	1,762,263	1,515,748
"Right of Way" payment to City of Bryan	(11,918,376)	(11,908,617)
Transfers, net	(10,156,113)	(10,392,869)
Change in net position	4,239,989	2,593,860
Net position, beginning of period	183,167,752	180,573,892
Net position, end of period	$ 187,407,741	$ 183,167,752

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

Bryan Texas Utilities
City Electric System
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2017 and 2016

	FY2017	FY2016
Cash flows from operating activities		
Receipts from customers	$ 189,680,408	$ 186,350,662
Payments to suppliers	(128,325,535)	(130,713,283)
Payments to employees	(11,147,894)	(10,770,635)
Net cash provided by operating activities	50,206,979	44,866,744
Cash flows from non-capital financing activities		
Operating subsidies and transfers from other funds	1,762,263	1,515,748
Operating subsidies and transfers to other funds	(11,918,376)	(11,908,617)
Net cash used by non-capital financing activities	(10,156,113)	(10,392,869)
Cash flows from capital and related financing activities		
Purchases of capital assets	(41,503,236)	(28,090,590)
Proceeds from capital debt	-	73,663,770
Principal paid on capital debt	(12,500,000)	(13,240,000)
Interest paid on capital debt	(10,797,710)	(8,934,302)
Bond issuance costs	(784,767)	(891,218)
Payment to escrow agent	(2,812,663)	-
Net cash used by capital and related financing activities	(68,398,376)	22,507,660
Cash flows from investing activities		
Proceeds from sales and maturities of investments	90,000,000	-
Purchases of investments	(135,904,090)	(10,014,673)
Interest and dividends received	810,282	591,404
Net cash provided/(used) by investing activities	(45,093,808)	(9,423,269)
Net increase/(decrease) in cash and cash equivalents	(73,441,318)	47,558,266
Balance-beginning of the year	103,047,083	55,488,817
Balance-end of the year	$ 29,605,765	$ 103,047,083
Reconciliation of Ending Cash Balance		
Cash and cash equivalents	$ 29,291,729	$ 51,901,097
Cash and cash equivalents – restricted	314,036	51,145,986
Balances-end of year	$ 29,605,765	$ 103,047,083

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

Bryan Texas Utilities
City Electric System
Statements of Cash Flows - continued
For the Fiscal Years Ended September 30, 2017 and 2016

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

	FY2017	FY2016
Operating income	$ 23,852,847	$ 21,685,934
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation and amortization	22,726,595	20,801,760
Bad debts	175,262	66,319
Change in assets and liabilities:		
Accounts receivable	(544,429)	(1,325,712)
Inventory	298,084	(1,186,037)
Under-recovered regulatory fee	(11,068)	1,200,665
Other assets	128,454	(145,327)
Deferred outflows/inflows of resources - pensions	996,404	(4,085,156)
Due from other funds	1,491,641	1,031,382
Accounts payable	883,854	764,585
Accrued liabilities	(272,067)	(99,549)
Over-recovered fuel	(219,416)	2,178,474
Over-recovered regulatory	(22,052)	22,052
Customer deposits	160,612	51,719
Net pension obligation		
and other post-employment benefits	262,042	4,794,831
Due to other funds	300,216	(889,196)
Net cash provided by operating activities	$ 50,206,979	$ 44,866,744

Non-cash capital and financing activities:

During the fiscal year ended September 30, 2017, the City of Bryan issued general obligation refunding bonds to refund City Electric System debt issued in 2007, 2008, & 2009. Proceeds of $68,278,254 were received as a result of the refunding, of which $65,465,591 was deposited immediately into an irrevocable trust for the defeasance of $68,120,000 of outstanding revenue bond principal and accrued interest thereon. The remaining $2,812,663 was deposited into the escrow account from the City Electric System's bond reserve funds.

During the fiscal year ended September 30, 2016, the City of Bryan issued general obligation refunding bonds to refund City Electric System debt issued in 2006. Proceeds of $8,960,085 were deposited immediately into an irrevocable trust for the defeasance of $8,880,000 of outstanding revenue bond principal and accrued interest thereon.

1. Summary of Significant Accounting Policies

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

The condensed combined statements of net position for the City Electric System and QSE as of September 30, 2017 are as follows:

	September 30, 2017		
	BTU City	**QSE**	**Combined**
Current assets	$ 85,968,923	$ 3,629,196	$ 89,598,119
Internal balance	1,916,604	(1,916,604)	-
Capital assets, net	324,685,949	495,393	325,181,342
Restricted assets	53,624,401	-	53,624,401
Other	-	-	-
Total assets	466,195,877	2,207,985	468,403,862
Deferred outflows	20,821,462	-	20,821,462
Current liabilities	19,158,109	87,353	19,245,462
Current liabilities payable from restricted assets	18,198,088	-	18,198,088
Noncurrent liabilities	261,903,294	-	261,903,294
Total liabilities	299,259,491	87,353	299,346,844
Deferred inflows	2,470,739	-	2,470,739
Net position:			
Net investment in capital assets	125,187,994	495,393	125,683,387
Restricted	9,279,540	-	9,279,540
Unrestricted	50,819,575	1,625,239	52,444,814
Total net position	$ 185,287,109	$ 2,120,632	$ 187,407,741

The condensed combined statements of net position for the City Electric System and QSE as of September 30, 2016 are as follows:

	September 30, 2016		
	BTU City	QSE	Combined
Current assets	$ 83,068,224	$ 4,130,806	$ 87,199,030
Internal balances	1,859,668	(1,859,668)	-
Capital assets, net	297,143,466	80,768	297,224,234
Restricted assets	89,501,234	-	89,501,234
Other	12,426,256	-	12,426,256
Total assets	483,998,848	2,351,906	486,350,754
Deferred outflows	18,028,336	-	18,028,336
Current liabilities	16,121,329	231,274	16,352,603
Current liabilities payable from restricted assets	23,353,173	-	23,353,173
Noncurrent liabilities	279,395,014	-	279,395,014
Total liabilities	318,869,516	231,274	319,100,790
Deferred inflows	2,110,548	-	2,110,548
Net position:			
Net investment in capital assets	116,268,746	80,768	116,349,514
Restricted	15,965,808	-	15,965,808
Unrestricted	48,812,566	2,039,864	50,852,430
Total net position	$ 181,047,120	$ 2,120,632	$ 183,167,752

The condensed combined statements of revenues, expenses, and changes in net position for the City Electric System and QSE for the year ended September 30, 2017, are as follows:

	Fiscal Year Ended September 30, 2017		
	BTU City	QSE	Combined
Operating revenues	$ 188,722,036	$ 1,342,190	$ 190,064,226
Operating expenses	164,869,189	1,342,190	166,211,379
Operating income	23,852,847	-	23,852,847
Investment income	784,398	-	784,398
Interest expense	(10,241,143)	-	(10,241,143)
Income before operating transfers	14,396,102	-	14,396,102
Transfers, net	(10,156,113)	-	(10,156,113)
Changes in net position	4,239,989	-	4,239,989
Net position, beginning of period	181,047,120	2,120,632	183,167,752
Net position, end of period	$ 185,287,109	$ 2,120,632	$ 187,407,741

The condensed combined statements of revenues, expenses, and changes in net position for the City Electric System and QSE for the year ended September 30, 2016, are as follows:

	Fiscal Year Ended September 30, 2016		
	BTU City	**QSE**	**Combined**
Operating revenues	$ 186,165,511	$ 1,459,144	$ 187,624,655
Operating expenses	164,479,575	1,459,144	165,938,721
Operating income	21,685,934	-	21,685,934
Investment income	652,368	-	652,368
Interest expense	(9,351,573)	-	(9,351,573)
Income before operating transfers	12,986,729	-	12,986,729
Transfers, net	(10,392,869)	-	(10,392,869)
Changes in net position	2,593,860	-	2,593,860
Net position, beginning of period	178,453,260	2,120,632	180,573,892
Net position, end of period	$ 181,047,120	$ 2,120,632	$ 183,167,752

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

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

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

New Accounting Pronouncements, Changes in Accounting Principles, and Restatements

For the fiscal year ended September 30, 2017, the City Electric System did not adopt any new accounting pronouncements.

The following guidance issued by GASB is effective for years following FY 2017 and is expected to be applicable to the City Electric System:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This statement replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. This new guidance is effective for fiscal years beginning after June of 2017. Therefore, this statement will be effective for the City Electric System for FY 2018.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

GASB Statement No. 83, *Certain Asset Retirement Obligations.* This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. Therefore, if applicable, the City Electric System will implement this guidance in FY 2019.

GASB Statement No. 85, *Omnibus 2017.* The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

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 year end, the City Electric System accrues estimated unbilled revenues for the period ended September 30. The difference between fuel revenue billed and fuel expense incurred is recorded as an addition or a reduction to fuel and purchased power expense, with a corresponding entry to accounts payable – over-recovered fuel or accounts receivable – under-recovered fuel, whichever is appropriate. At September 30, 2017 and 2016, the City Electric System reported a current liability – over-recovered fuel of $4,132,634 and $4,352,049, 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, 2017 and 2016, the City Electric System reported a current asset – under-recovered regulatory fee of $11,068 and a current liability – over-recovered regulatory fee of $22,052, respectively.

Prepaid Energy Costs, Impairment of Prepaid Energy Costs and Regulatory Assets, - The Texas Municipal Power Agency's ("TMPA") rates for the purchase of electricity billed to the City Electric System are designed to cover TMPA's annual system costs including debt service costs. During the fiscal year ended September 30, 2010, the City Electric System, along with other TMPA member cities, issued debt in their own names to refund a portion of TMPA debt and to finance certain capital improvements of TMPA. Such amounts have been accounted for as a prepayment of future energy costs on the Statements of Net Position and were being amortized through 2019, the life of the associated debt. On September 26, 2017, the Texas Municipal Power Agency (TMPA) brought the Gibbons Creek unit off-line and placed it into seasonal operation where it is planned to run the unit only during the

2018 summer operating season (June through September) and no definite plans to run beyond that summer. See Note 10 – Texas Municipal Power Agency for a further discussion of TMPA activities. As a result of TMPA's planned end of generation operations, a portion of BTU's Prepaid Energy Costs associated with TMPA become impaired and GASB Statement No. 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* is applied. Based on continued service units associated with 2017 summer operations, a Prepaid Energy Cost of $2,616,570 remains at September 30, 2017 associated with TMPA and an amount of $9,459,685 was determined to be impaired. The remaining Prepaid Energy Costs associated with TMPA are being amortized through 2018. Because BTU retail rates as authorized by the City of Bryan currently do and are projected to continue to include the recovery of the impaired portion of TMPA's Prepaid Energy Costs, BTU has applied the "*General Standards of Accounting for the Effects of Regulation"* section of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and has recorded the impaired value as a Regulatory Asset at September 30, 2017. The Regulatory Asset is being amortized through 2019, the life of the associated debt. Also included in Prepaid Energy Costs are prepaid generation capacity costs. As discussed in Note 12 – Commitments and Contingencies, in 2007, BTU entered into a purchase power agreement with a subsidiary of Shell Energy North America (U.S.), L.P. As a part of the agreement, BTU prepaid $14,000,000 of generation capacity costs. The prepayment is being amortized over the life of the agreement which extends through December 31, 2017. The amortization of prepaid energy costs is reported on the Statements of Revenues, Expenses and Changes in Net Position in depreciation and amortization and totaled $8,300,717 for each of the fiscal years ended September 30, 2017 and 2016.

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

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

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

Bond Issuance Expenses – According to the financial reporting requirements of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* bond issuance expenses are to be expensed as incurred. Issuance expenses are reported on the Statements of Revenues, Expenses and Changes in Net Position in interest expense and totaled $784,767 and $891,219 for the fiscal years ended September 30, 2017 and 2016, respectively.

Pensions **-** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined using the flow of economic resources measurement focus and the full accrual basis of accounting. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Regulatory Liability – To better align certain benefits received with BTU's retail rate design, the City 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. The City 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 accumulated depreciation over the life of the asset constructed.

During the fiscal years ended September 30, 2017 and 2016, the City Electric System collected $602,914 and $640,508, respectively, of AIC. The amortization of the deferred regulatory liability was $64,816 and $48,000 for 2017 and 2016, respectively.

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

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

2. Cash and Investments

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

Deposits

State statutes require that all deposits in financial institutions be fully collateralized with depository insurance or by U.S. Government obligations or its agencies and instrumentalities; or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. City Electric System demand deposits for the fiscal years ended September 30, 2017 and 2016 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 statutes, by various City ordinances, and by City of Bryan investment policy which amplifies those guidelines and prescribes how the City Electric System will operate its investment program in accordance with applicable laws and regulations. The City's policy, which was adopted on August 23, 2016 for the fiscal year ending September 30, 2017, 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;

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 City Electric System's cash, cash equivalents and investments at September 30, 2017 and 2016 is summarized as follows:

	FY2017	FY2016
Demand deposits	$ 29,291,729	$ 100,868,047
Investment in government pool	19,164,201	3,018,172
Collateral deposits with counterparty	314,036	2,179,036
Investments in agency securities	64,975,733	35,337,076
Total	$ 113,745,699	$ 141,402,331

The City Electric System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72 provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The City Electric System has recurring fair value measurements as presented in the table below. The investment balances at September 30, 2017 are as follows:

		Fair Value Measurements		
	Value at FYE	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments measured at net asset value (NAV)				
Investment Pools				
TexStar	$ 19,164,201	$ -	$ -	$ -
Investments by fair value level				
U.S. Agency Bonds	64,957,733	-	64,957,733	-
Total	$ 84,121,934	$ -	$ 64,957,733	$ -

The investment balances at September 30, 2016 are as follows:

		Fair Value Measurements		
	Value at FYE	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments measured at net asset value (NAV)				
Investment Pools				
TexStar	$ 3,018,172	$ -	$ -	$ -
Investments by fair value level				
U.S. Agency Bonds	35,337,076	-	35,337,076	-
Total	$ 38,355,248	$ -	$35,337,076	$ -

The investment in TexStar is measured at net asset value which approximates fair value. Investments recorded at net asset value are exempt from reporting in the fair value hierarchy. U.S. Government Agency Securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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

As of September 30, 2017, the City Electric System had the following investments:

		Fair Value Measurements		
	Value at FYE	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments measured at net asset value (NAV)				
Investment Pools				
TexStar	$ 19,164,201	$ -	$ -	$ -
Investments by fair value level				
U.S. Agency Bonds	64,957,733	-	64,957,733	-
Total	$ 84,121,934	$ -	$ 64,957,733	$ -

The City Electric System's investment in government pool includes deposits in TexStar. "TexStar" is a local government investment pool created and jointly managed by First Southwest Asset Management, Inc. and JPMorgan Chase Bank to invest funds on behalf of Texas political subdivisions. TexStar operates on a $1.00 net asset value basis and allows same day or next day redemptions and deposits. Interest is allocated daily based on portfolio earnings and participant account balances. The City Electric System's investment in TexStar is stated at net asset value, which approximates fair value. The fair value of the City Electric System's investment is the same as the value of the pool shares. This pool is not managed by the City Electric System and the City Electric System does not possess securities that exist in either physical or book entry form. The investment in TexStar is rated AAAm by Standard and Poors. TexStar has a redemption notice of one day, no maximum transaction amount, and the investment pool authority cannot impose liquidity fees.

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

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

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

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

Restricted Cash and Investments

In 2017, cash and investments of $113.7 million exceeded amounts required to be restricted by $60.1 million. In 2016, cash and investments of $141.4 million exceeded amounts required to be restricted by $51.9 million. The City Electric System did not transfer rate stabilization funds to unrestricted assets in 2017 or 2016.

Amounts required to be restricted at September 30, 2017 and 2016 are as follows:

	FY2017	**FY2016**
Rate stabilization fund	$ 1,696,080	$ 1,691,508
Debt reserve	5,618,799	9,216,230
Debt service	3,909,221	5,211,860
Bond funds for construction	33,646,774	62,682,254
Over-recovered fuel expense	4,132,634	4,352,049
Over-recovered regulatory fee	-	22,052
Customer deposits	4,306,857	4,146,245
Collateral deposits	314,036	2,179,036
Restricted cash and investments	$ 53,624,401	$ 89,501,234

3. Capital Assets

General Description – At September 30, 2017, production plant included Dansby and Atkins power plants located in Brazos County, which are solely owned and operated by BTU. In total, BTU production plants include four gas-fired generating units representing 226 megawatts of available generating capacity. Other assets reflected in total capital assets include transmission, distribution and general plant facilities.

Impairments – BTU annually evaluates capital assets as required by GASB Statement No. 42. The statement provides guidance for determining if any assets have been impaired and for calculating the appropriate write-downs in value for any assets found to be impaired. An internal company-wide review of capital assets, in accordance with GASB Statement No. 42, concluded that the City Electric System had no impaired capital assets at September 30, 2017.

Capital asset activity for the fiscal year ended September 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 6,021,381	$ -	$ -	$ 6,021,381
Construction in Progress	13,842,126	39,745,678	30,910,456	22,677,348
Retirement in Progress	197,393	2,759,408	2,739,147	217,654
Total capital assets, not being depreciated	20,060,900	42,505,086	33,649,603	28,916,383
Capital assets, being depreciated:				
Production Plant	105,143,761	2,266,824	503,353	106,907,232
Transmission Plant	162,820,345	16,416,827	2,479,324	176,757,848
Distribution Plant	136,291,747	8,747,249	380,669	144,658,327
General Plant (including QSE)	24,911,072	3,961,463	566,628	28,305,907
Total capital assets, being depreciated	429,166,925	31,392,363	3,929,974	456,629,314
Less accumulated depreciation for:				
Production Plant	47,509,880	3,772,359	1,765,714	49,516,525
Transmission Plant	35,459,652	5,004,982	3,088,959	37,375,675
Distribution Plant	55,241,059	4,382,356	873,295	58,750,120
General Plant (including QSE)	13,793,000	1,330,997	401,962	14,722,035
Total accumulated depreciation	152,003,591	14,490,694	6,129,930	160,364,355
Total capital assets, being depreciated, net	277,163,334	16,901,669	(2,199,956)	296,264,959
Total capital assets, net	$ 297,224,234	$ 59,406,755	$ 31,449,647	$ 325,181,342

Depreciation and amortization totals $22.7 million and $20.8 million, for the fiscal years ended September 30, 2017 and 2016, respectively, which includes $8.3 million in both fiscal years related to amortization of prepaid energy. Cash paid for removal costs were approximately $2,759,000 and $753,000 for the years ended September 30, 2017 and 2016, respectively.

4. Long-Term Debt

For the fiscal year ended September 30, 2017, the City of Bryan issued revenue refunding bonds dated June 8, 2017 ("2017 Revenue Bonds") totaling $57,225,000 for the City Electric System. The 2017 Revenue Bonds mature serially beginning July 1, 2018, through July 1, 2034, with coupon rates ranging from 3.000% to 5.000%. The proceeds from the sale of the 2017 Revenue Bonds were restricted to refunding portions of the City Electric System's outstanding bonds for debt service savings. Proceeds from the sale of the bonds refunded $23,615,000 of the Series 2007 revenue bonds, $24,980,000 of the Series 2008 revenue bonds, and $19,525,000 of the Series 2009 revenue bonds. The refunding represented debt service savings of $19,528,197, and a net present value benefit savings of $12,046,268.

For the fiscal year ended September 30, 2016, the City of Bryan issued revenue refunding and improvement bonds dated July 12, 2016 ("2016 Revenue Bonds") totaling $71,435,000 for the City Electric System. The 2016 Revenue Bonds mature serially beginning July 1, 2017, through July 1, 2041, with coupon rates ranging from 3.000% to 5.000%. The proceeds from the sale of the 2016 Revenue Bonds are restricted to acquisition or construction of improvements, additions, or extensions to the City Electric System; capital assets, facilities, and equipment incident and related to the operation, maintenance, or administration of the City Electric System; and refunding portions of City Electric System's outstanding bonds for debt service savings. Proceeds from the sale of the bonds were used to refund $8,880,000 of the Series 2006 revenue bonds. The refunding represented debt service savings of $1,683,252, and a net present value benefit savings of $1,409,683.

In the fiscal year-ended 2017 and prior years, the City Electric System defeased certain outstanding revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City Electric System's financial statements. As of September 30, 2017, no City Electric System defeased revenue bonds were outstanding.

Changes to long term debt during fiscal year 2017, including current portion are as follows:

	Interest Rates (%)	Series Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Revenue Bonds:							
Series 2007	4.500 - 5.250	2032	$ 24,665,000	$ -	$ 24,665,000	$ -	$ -
Series 2008	4.750 - 5.250	2033	25,980,000	-	25,980,000	-	-
Series 2009	4.000 - 5.000	2034	20,290,000	-	20,290,000	-	-
Series 2010	5.000	2019	23,385,000	-	2,030,000	21,355,000	380,000
Series 2012	3.125 - 5.000	2037	47,065,000	-	5,510,000	41,555,000	2,425,000
Series 2016	3.000 - 5.000	2041	71,435,000	-	390,000	71,045,000	365,000
Series 2017	3.000 - 5.000	2034	-	57,225,000	-	57,225,000	2,535,000
Total Revenue Bonds			212,820,000	57,225,000	78,865,000	191,180,000	5,705,000
Certificates of Obligation:							
Series 2014	2.000 - 5.000	2039	33,020,000	-	1,025,000	31,995,000	1,045,000
Total Certificates of Obligation			33,020,000	-	1,025,000	31,995,000	1,045,000
General Obligation Bonds							
Series 2015	2.000 - 4.000	2025	7,005,000	-	730,000	6,275,000	750,000
Total General Obligation Bonds			7,005,000	-	730,000	6,275,000	750,000
Total long-term debt			$ 252,845,000	$ 57,225,000	$ 80,620,000	$ 229,450,000	$ 7,500,000

All net revenues of the City Electric System are pledged for the payment of debt service of the revenue bonds. Net revenues, as defined by the bond resolution include all of the revenues and expenses of the City Electric System other than certain interest income and expense and depreciation and amortization. The bond resolutions further require that the net revenues, as defined, equal at least 1.10 times the annual debt service on all revenue bonds. The City Electric System is in compliance with these requirements at September 30, 2017 and 2016.

Under the terms of the revenue bond covenants, the City Electric System is required to maintain minimum reserve fund requirements equal to approximately one year of revenue bond debt service requirements. The reserve fund requirements may be satisfied by cash, a letter of credit or an insurance policy. The reserve fund requirements for the Series 2010 and 2012 Bonds are satisfied with restricted funds which are reported on the City Electric System's Statements of Net Position as debt reserve. The reserve fund requirements for the Series 2016 and Series 2017 Bonds are satisfied with insurance policies. There are no reserve fund requirements for the 2014 Certificates of Obligation or 2015 General Obligation Bonds.

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

Revenue Bonds

Year Ending September 30	Principal	Interest	Total
2018	$ 5,705,000	$ 8,530,550	$ 14,235,550
2019	28,015,000	8,371,907	36,386,907
2020	6,885,000	6,996,207	13,881,207
2021	7,225,000	6,651,957	13,876,957
2022	7,605,000	6,290,707	13,895,707
2023 - 2027	38,295,000	26,208,157	64,503,157
2028 - 2032	47,995,000	15,810,394	63,805,394
2033 - 2037	33,450,000	6,593,425	40,043,425
2038 - 2041	16,005,000	1,423,700	17,428,700
Total	$ 191,180,000	$ 86,877,004	$ 278,057,004

Certificates of Obligation

Year Ending September 30	Principal	Interest	Total
2018	$ 1,045,000	$ 1,062,141	$ 2,107,141
2019	1,070,000	1,041,241	2,111,241
2020	1,090,000	1,019,841	2,109,841
2021	1,115,000	998,041	2,113,041
2022	1,145,000	964,591	2,109,591
2023 - 2027	6,335,000	4,212,006	10,547,006
2028 - 2032	7,415,000	3,120,109	10,535,109
2033 - 2037	8,795,000	1,750,244	10,545,244
2038 - 2039	3,985,000	228,570	4,213,570
Total	$ 31,995,000	$ 14,396,784	$ 46,391,784

General Obligation Bonds

Year Ending September 30	Principal	Interest	Total
2018	$ 750,000	$ 186,625	$ 936,625
2019	725,000	167,875	892,875
2020	740,000	153,375	893,375
2021	765,000	123,775	888,775
2022	780,000	108,475	888,475
2023 - 2025	2,515,000	149,825	2,664,825
Total	$ 6,275,000	$ 889,950	$ 7,164,950

Total Debt

Year Ending September 30	Principal	Interest	Total
2018	$ 7,500,000	$ 9,779,316	$ 17,279,316
2019	29,810,000	9,581,023	39,391,023
2020	8,715,000	8,169,423	16,884,423
2021	9,105,000	7,773,773	16,878,773
2022	9,530,000	7,363,773	16,893,773
2023 - 2027	47,145,000	30,569,988	77,714,988
2028 - 2032	55,410,000	18,930,503	74,340,503
2033 - 2037	42,245,000	8,343,669	50,588,669
2038 - 2041	19,990,000	1,652,270	21,642,270
Total	**$ 229,450,000**	**$ 102,163,738**	**$ 331,613,738**

In the Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended September 30, 2017 and 2016, interest expense is recorded in the amount of $10,241,143 and $9,604,483, respectively, and is included as a non-operating expense.

5. Retirement Plan

Plan Description

The City of Bryan participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com.*

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Employees covered by benefit terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	563
Inactive employees entitled to but not yet receiving benefits	424
Active employees	873
Total	1,860

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.04% and 15.29% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were $8,521,169, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for the time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

	Target Allocation	**Long-Term Expected Real Rate of Return (Arithmetic)**
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	$ 292,976,253	$ 236,442,481	$ 56,533,772
Changes for the year:			
Service Cost	8,498,467	-	8,498,467
Interest	19,655,455	-	19,655,455
Change of benefit terms	-	-	-
Difference between expected and actual experience	450,762	-	450,762
Changes of assumptions	-	-	-
Contributions - employer	-	8,035,947	(8,035,947)
Contributions - employee	-	3,741,223	(3,741,223)
Net investment income	-	15,980,505	(15,980,505)
Benefit payments, including refunds of employee contributions	(12,067,133)	(12,067,133)	-
Administrative expense	-	(180,465)	180,465
Other changes	-	(9,723)	9,723
Net changes	16,537,551	15,500,354	1,037,197
Balance at 12/31/2016	$ 309,513,804	$ 251,942,835	$ 57,570,969
Balance at 12/31/16 - BTU City Electric System			**$ 14,846,900**

The portion of the net pension liability, deferred inflows, deferred outflows, and pension expense allocated to the City Electric System was determined by the ratio of the City Electric System contributions to TMRS as a percentage of City-wide contributions to TMRS. The ratio was approximately 26% for the year ended September 30, 2017 and 2016.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City Electric System, calculated using the discount rate of 6.75%, as well as what the City Electric System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City Electric System's net pension liability	$ 26,153,494	$ 14,846,900	$ 5,087,972

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017 the City Electric System recognized pension expense of $3,233,367.

At September 30, 2017 the City Electric System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 88,462	$ (392,442)
Changes in actuarial assumptions	522,376	-
Difference between projected and actual investment earnings	2,852,187	(4,171)
Contributions subsequent to the measurement date	1,659,507	-
Total	$ 5,122,532	$ (396,613)

Deferred outflows of resources of $1,659,507 related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ended December 31
2017	$ 1,043,708
2018	1,076,469
2019	934,675
2020	11,559
2021	-
Thereafter	-
Total	$ 3,066,412

6. Other Post-Employment Benefits

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

On February 28, 2017 the City established the City of Bryan Post-employment Benefits Trust (Trust). The Trust is a single employer irrevocable trust established by action of the City Council. This trust is held by Public Agency Retirement Services (PARS) who is the administrator of the plan. US Bank serves as the trustee.

To qualify for healthcare an employee must be at least 60 years of age and have five years of TMRS service credit or have at least 20 years of service credit. In order to be eligible, employees must elect to retire at time of separation, must elect in writing to continue health benefits coverage at the time of separation, and must pay the appropriate premium. Coverage can continue for life.

Employees terminating before normal retirement conditions are not eligible for retiree health coverage. Employees who retire under a disability retirement are not eligible for retiree health coverage.

Eligible retirees may continue health insurance benefits for eligible spouses and dependents covered at the time of retirement. A dependent not covered under the plan at this time is not eligible for coverage. If the retiree elects to continue coverage for any dependent and on any subsequent date elects to discontinue coverage, the dependent is no longer eligible for coverage.

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

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

Once the retiree or spouse is enrolled in Medicare, the City's plan becomes the secondary payer. Retiree is responsible for payment of any Medicare premiums. The City does not provide any cash payment in lieu of electing the City's health care plan. Retirees who do not elect to continue coverage at time of separation are not eligible to opt back in.

The City does not offer life insurance coverage for retirees or their dependents. Employees who retire are eligible to convert their group life insurance coverage to a Whole Life Policy without accidental death and dismemberment until the employee reaches age 100 or a Group Term Life with AD&D until the employee reaches age 70.

The City's health care plan includes medical, dental, and prescription coverage. Retiree health plan coverage is the same as coverage provided to active City employees in accordance with the terms and conditions of the current City of Bryan Health Plan. The City also offers a fully insured optional vision plan that retirees and their dependents may purchase. The City reserves the right to modify premium amounts, to modify eligibility requirements and to modify or discontinue retiree health benefits.

In the year ended September 30, 2017, retirees paid $589,716 in premiums and $1,565,659 in claims were paid for post-retirement health care and administrative charges. As of September 30, 2017, the

City has 34 retirees, 40 retirees and spouses, 7 retirees and families and 3 retirees and child(ren) participating in the health plan, out of the 436 employees eligible to participate upon retirement. Expenses are recognized as retirees submit claims.

The City also provides health benefits as required by the Federal Government under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"). COBRA requires employers that sponsor group health plans to provide continuation of group coverage to employees and their dependents under certain circumstances where coverage would otherwise end. Terminated employees who qualify under COBRA pay premium costs for themselves and dependents.

Expenses are recognized as claims when submitted. COBRA participants are reimbursed at the same levels as active employees. Participants paid premiums of $32,079 and incurred claims and administrative expenses of $22,122 during the year ended September 30, 2017. As of September 30, 2017, the City has 3 COBRA participants.

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

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

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

Summary of Significant Accounting Policies – OPEB

Financial statements for the Trust are prepared using the accrual basis of accounting and can be found in the City's comprehensive annual financial report. Plan member contributions are recognized when due, and the City's contributions are recognized when due. Benefits and any refunds are recognized when due and payable according to the terms of the plan. Assets held by the Trust are valued at fair value.

Funding Policy and Annual OPEB Cost

During FY 2017, the City Council adopted a funding policy for the City's OPEB liability. During FY 2017 $500,000 was contributed to the Trust. The long term policy of the City is to contribute $500,000 every year until the liability is fully funded, subject to annual appropriations and availability of funds.

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City had its most recent OPEB valuation performed as of December 31, 2015, as required by GASB. The City's annual OPEB cost for the current year and prior two years is as follows:

The City's annual OPEB cost for the current year and prior two years is as follows:

	FY 2017	FY 2016	FY 2015
Annual required contribution (ARC)	$ 782,899	$ 920,004	$ 900,753
Interest on OPEB obligation	131,545	120,575	126,299
Adjustment to ARC	(128,147)	(117,460)	(117,015)
Annual OPEB cost	786,297	923,119	910,042
Contributions made	(1,475,943)	(648,865)	(702,316)
Increase (decrease) in net OPEB obligation	(689,646)	274,254	207,726
Net OPEB obligation, beginning of year	3,288,618	3,014,364	2,806,638
Net OPEB obligation/(asset), end of year	$ 2,598,972	$ 3,288,618	$ 3,014,364

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year ending September 30, 2017, and the preceding two fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
2015	$ 910,042	$ 702,316	77.2%	$ 3,014,364
2016	923,119	648,865	70.3%	3,288,618
2017	786,297	1,475,943	187.7%	2,598,972

<u>Funding status and funding progress</u>

The City had an actuarial valuation performed as of December 31, 2015. The funded status of the City's retiree health care plan, under GASB Statement No. 45, is as follows:

	FY 2017	FY 2016	FY 2015
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)	8,847,176	11,248,356	10,704,428
Unfunded AAL	(8,847,176)	(11,248,356)	(10,704,428)
Funded Ratio	0%	0%	0%
Covered Payroll	55,894,466	54,614,239	48,991,679
UAAL as a % of Covered Payroll	16%	21%	22%

Under the reporting parameters, the City's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by $8,847,176 at September 30, 2017, as of the December 31, 2015 vaulation.

Actuarial methods and assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The entry age normal method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Inflation rate	-	2.50% per annum
Investment rate of return	-	6.50%, net of expenses
Actuarial cost method	-	Projected Unit Credit Cost Method
Amortization method	-	Level as a percentage of employee payroll
Amortization period	-	30-year, open amortization
Payroll growth	-	3.00% per annum
Healthcare cost trend rate	-	Initial rate of 7.50% declining to an ultimate rate of 4.50% after 13 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information on page 55 provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

7. Risk Management

The City Electric System is covered for risk of losses related to general liability and workers' compensation through the City's risk management program. The City has established an "Insurance Fund" whereby the costs of providing claims servicing and claims payment are funded by charging a "premium" based upon a percentage of estimated current year payroll and management's estimate of projected current costs. For the years ended September 30, 2017 and 2016, the City Electric System paid the City $582,185 and $538,668, respectively, for participation in the City's risk management program.

8. Financial Hedging

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

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

In accordance with the requirements of GASB 53, the City Electric System reports all fuel hedges on the Statements of Net Position at fair value. The fair value of swap transactions is calculated as the difference between the closing futures price at the end of the reporting period, and the futures price at the time the positions were established, less applicable commissions.

BTU evaluated all potential hedging derivative instruments for effectiveness as of September 30, 2017, and determined the derivatives to be effective in substantially offsetting the changes in cash flows of the hedgeable items. BTU's hedgeable items are expected HSC natural gas purchases to serve budgeted load. BTU projects total natural gas needs as part of a 5-year forecast. This forecast is the basis for the procurement amount of the hedgeable item. BTU's potential hedging derivatives are NYMEX and HSC indexed commodity swaps. These derivatives act as cash flow hedges.

BTU utilized regression analysis to test effectiveness of its NYMEX hedges. Testing was based on the extent of correlation between historical NYMEX index and HSC natural gas prices for the prompt months of January 2003, to September 2017. The correlation coefficient of (0.8589) exceeds the minimum standard established by GASB 53 and indicates a strong linear relationship between the NYMEX and HSC prices. The calculated R^2 value of 0.9612 indicates that the changes in cash flows of the hedge substantially offset the changes in cash flows of the hedgeable item. The City Electric System also utilizes HSC indexed gas commodity swaps to hedge its open exposure after a NYMEX-based swap contract month settles. These HSC indexed swaps are hedging the physical purchases of natural gas also based on the HSC index and are effective cash flow hedges under the consistent critical terms method as defined by GASB 53. The swap is for the purchase of virtually the same quantity of the hedgeable item, has zero fair value at inception, and the reference rate of the swap and the hedgeable item are the same (HSC index).

For the fiscal years ended September 30, 2017 and 2016, the total fair value of outstanding hedging derivative instruments was a net liability of $6,239,244 and $11,909,400, respectively. The fair value of those instruments maturing within one year are reported on the Statements of Net Position in current liabilities as derivative financial instruments and were $5,567,140 and $5,234,418 at September 30, 2017 and 2016, respectively. The fair value of those instruments with maturities exceeding one year are reported on the Statements of Net Position in noncurrent liabilities as derivative financial instruments and were $672,104 and $6,674,982 at September 30, 2017 and 2016, respectively.

Hedge accounting treatment outlined in GASB 53 and GASB 63 requires changes in the fair value of derivative instruments deemed effective in offsetting changes in cash flows of hedged items be reported as deferred (inflows) outflows of resources on the Statements of Net Position. During the fiscal year ended September 30, 2017, the fair value of the City Electric System's hedging derivative instruments - NYMEX-based commodity swaps - increased by $5,670,157; which is reported in the Statements of

Net Position as a decrease of deferred outflows of resources. The deferred outflows are reported until respective contract expirations occur in conjunction with hedged expected physical fuel purchases. When fuel purchase transactions occur, the deferred balance associated with the expired fuel hedging contract is recorded as an adjustment to fuel expense. At September 30, 2017 and 2016, the deferred outflows of resources related to hedging derivatives were $6,239,244 and $11,909,400, respectively, and are reported on the Statements of Net Position.

The following information details the City Electric System's hedging derivative instruments as of September 30, 2017:

Type	Terms	Volume Hedged (MMBtu)	Effective Dates	Maturity Dates	Reference Index	Fair Value
Commodity Swaps	BTU pays prices of $2.83 - 6.42	5,047,500	Sep 2010 - July 2017	Oct 2017 - Dec 2020	NYMEX	$(6,239,244)

The following information details the City Electric System's hedging derivative instruments as of September 30, 2016:

Type	Terms	Volume Hedged (MMBtu)	Effective Dates	Maturity Dates	Reference Index	Fair Value
Commodity Swaps	BTU pays prices of $2.925 - 6.42	7,026,000	Sep 2010 - July 2016	Oct 2016 - Dec 2020	NYMEX	$(11,909,426)

The estimated fair value of the hedging derivative instruments is classified as a level 2 measurement under the hierarchy estimated by GASB 72 and are valued at the difference between the closing futures price at the end of the reporting period, and the futures price at the time the positions were established, less applicable commissions.

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

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

Basis Risk - BTU is exposed to basis risk because the expected gas purchases being hedged will settle based on a pricing point (HSC) different than the pricing point of the hedge transactions (NYMEX). For September 2017, prompt month prices were $2.961/MMBtu and $2.935/MMBtu, for NYMEX and HSC, respectively.

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

9. Employee Benefits

The City established the Employee Benefits Trust Fund effective October 1, 1986, covering health benefits for eligible employees. At that time the Council approved a formal trust agreement establishing the Fund. Employee premium costs are shared by the City and the employee, while dependent coverage is paid by the employee. The City's contract with its third party administrator and reinsurer sets an individual stop loss deductible in the amount of $150,000 and a maximum aggregate stop loss deductible of $10,946,178 for the twelve month period which began January 1, 2017 and ends December 31, 2017. These stop loss levels apply to both medical and prescription drug coverage. Prescription drug and dental coverage is not included. There were no significant reductions in insurance coverage in the current year from coverage in the prior year. For the City's aggregate stop loss coverage, there have been no settlements that have exceeded insurance coverage for the past three calendar years. However, the City has paid out $278,601 for calendar year 2015, $238,255 for calendar year 2016, and $370,525 for calendar year 2017 to date in settlements that exceed insurance coverage applicable to individual stop loss coverage.

The following schedule represents the changes in claims liabilities for the year:

	FY 2017	FY 2016
Beginning balance unpaid claims	$1,063,007	$ 995,718
Incurred claims	9,747,452	8,052,689
Claim payments	(9,546,412)	(7,985,400)
Ending balance unpaid claims	$1,264,047	$1,063,007
Amounts due in one year	$1,264,047	$1,063,007

10. Texas Municipal Power Agency

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

TMPA operates the Gibbons Creek Steam Electric Station ("Gibbons Creek"), a coal-fired generating plant located in Grimes County, Texas with a net generating capability of 470 MW within the jurisdiction of the Electric Reliability Council of Texas (ERCOT). The plant began commercial operation October 1, 1983. Additionally, TMPA owns and operates approximately 350 circuit miles of transmission lines and 14 substations within ERCOT. TMPA also owns approximately 10,500 acres of land adjacent to the plant previously used to mine lignite for generation.

In September 1976, TMPA entered into identical Power Sales Contracts (the "PSC") with each of the Member Cities for the purpose of obtaining the economic advantages of jointly financing, constructing and operating large electric generating units and related facilities to supply the Member Cities' future energy needs. Under the PSC, the Member Cities are required to pay, for the benefits received or to be received by them from such activities, an amount sufficient to recover TMPA's operating and maintenance expenses and the Bond Fund, Reserve Fund and Contingency Fund requirements of the Revenue Bond Resolutions. In addition, the Member Cities are obligated to guarantee the payment of TMPA's bonds and commercial paper. The PSC, as amended in 1997, is a take-or-pay contract, under which each Member City is obligated to take or pay for a specified percentage of electricity from

TMPA's generating facility. Those percentages are Bryan 21.7%; Denton 21.3%; Garland 47%; and Greenville 10%.

Effective September 1, 2016, TMPA and the Member Cities entered into a Joint Operating Agreement (the "JOA"). In general, the purposes of the JOA include: (i) funding TMPA operations such as mine reclamation, transmission service, and plant decommissioning following expiration of the Power Sales Contract ("PSC") (ii) subject to certain exceptions, requiring Member City approval for the issuance of new debt, the execution of certain significant contracts, and the sale of property exceeding $10 million in value (iii) specifying provisions for determining how costs of TMPA and proceeds from the sale of assets are to be allocated among the Member Cities (iv) providing for the establishment by TMPA of reserve funds for the decommissioning of the plant and the indemnification of TMPA Board Members and Member City officials, employees, contractors, and agents and (v) dividing the operations of TMPA into three business functions-mine, generation, and transmission-and requiring separate budgets and books for each business function.

The PSC provides that upon dissolution of TMPA, the assets of TMPA will automatically be transferred to the Member Cities, with each Member City receiving an undivided interest in the assets of TMPA in proportion to the amount paid by the Member City to TMPA. The JOA requires TMPA to periodically make this calculation for each business unit, and sets out formulas for making these calculations. Under the JOA, these ownership calculations are relevant not only to the allocation of assets upon dissolution of TMPA, but also to the allocation of certain proceeds from the sale of assets, and in some cases, the allocation of TMPA costs. At the request of a majority of the Member Cities, TMPA is required by the JOA to transfer a divided interest in the transmission system to each Member City. Under this partition process, the objective is for each City to receive ownership of transmission facilities in the vicinity of the Member City, and in proportion to the Member City's ownership interest in the transmission business. Any such transfer of transmission assets must be in compliance with relevant bond covenants, including those requiring defeasance of all or a portion of transmission debt.

The JOA includes a reclamation plan for the mine, requires the development of a decommissioning plan, and sets out standards for environmental remediation. TMPA is required to comply with these plans and standards.

Under the JOA, in discharging its contractual obligations, including mine reclamation, decommissioning, transmission service, environmental remediation, indemnification, and other obligations, TMPA is rendering services to the Member Cities. The JOA obligates each Member City to pay the cost of these services, and to collect rates and charges for electric service sufficient to enable it to pay to TMPA all amounts due under the JOA for these services. A Member City's payment obligations under the JOA are payable exclusively from such electric utility revenues, and constitute an operating expense of its electric system.

Unless terminated earlier through the mutual consent of all parties, the JOA remains in effect until the dissolution of TMPA and the winding up of its affairs.

Effective September 1, 2016, the JOA was amended ("Amendment No. 1"). The primary purposes of the amendment were to authorize the sale of Gibbons Creek and the sale of the Southern 345 kV Transmission System, and to authorize the issuance of refunding bonds in connection with such sales. Since the sale contemplated by Amendment No. 1 did not occur, Amendment No. 1, by its own terms, ceased to have any force or effect. Effective September 22, 2017, the JOA was amended a second time ("Amendment No. 2"). The purposes of Amendment No. 2 were to: continue TMPA's authority to issue Mine Reclamation Bonds as had been contemplated in Amendment No. 1; revise the dates on which the separate budgets of the JOA become effective; authorize the Agency to sell certain mining and transmission assets, provided the sales do not exceed in value certain financial thresholds, and provided the sales comply with bond covenants; and allow for an extension to the term of the PSC, applicable only to the Cities notifying TMPA of the extension, in order to complete a period of seasonal operation in 2018, or such other period of time as desired by the notifying Cities.

Effective October 17, 2017, Gibbons Creek entered into a seasonal operations mode, operating during the summer months only (June-September). This change was authorized by ERCOT through an NSO Initial and Final Determination, dated August 2017. Due to the significant decline in the service utility of the generation assets, such assets were deemed impaired as of September 30, 2017 and the Agency recognized a $214,810 impairment loss in its Statement of Revenues, Expenses and Changes in Net Position.

In January 2016 and again in June 2017, the Agency issued requests for proposals (“RFPs”) regarding the proposed sale of the Agency generation and transmission assets. Certain proposals received in connection with the 2016 RFP were pursued in 2016 and into 2017, but negotiations were ultimately discontinued. The Agency received additional proposals in the summer and fall of 2017, and at present, the Agency is reviewing proposals it received in September 2017 (collectively, the "Sale Proposal"). The Sale Proposal involves two cooperating entities, neither of which is a governmental entity. One proposer is interested in ownership of Gibbons Creek (the "Generation Proposer") and the other (the "Transmission Proposer") has expressed interest in acquiring a portion of the Agency's Transmission Facilities. The Sale Proposal is currently under evaluation by the Agency and negotiations with the Proposers have not yet commenced. Agency management anticipates, that if any negotiations are pursued with respect to the Sale Proposal (i) none of the Agency's generation assets would be transferred to the Generation Proposer prior to September 1, 2018 and (ii) none of the Agency's transmission assets would be transferred to the Transmission Proposer prior to the first date, September 1, 2020, when all Transmission Debt is subject to optional or mandatory redemption or could otherwise be prepaid.

At September 30, 2017, BTU’s portion of outstanding TMPA bonds and commercial paper was approximately $43.7 million and $21.7 million, respectively.

During the years ended September 30, 2017 and 2016 the City Electric System paid TMPA $49,428,176 and $47,823,937 respectively for power purchases and related activity under the contract. As of September 30, 2017 and 2016 the City Electric System had payables to TMPA amounting to $929,666 and $1,001,817, respectively.

The TMPA’s Comprehensive Annual Financial Report for the year ended September 30, 2017 reported the following:

	FY2017
Total Assets	$ 406,692,000
Total Deferred Outflows of Resources	403,000
Total Liabilities	362,208,000
Total Deferred Inflows of Resources	-
Total Net Position	44,887,000
Change in Net Position for year ended September 30, 2017	$12,493,000

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

11. Related Party Transactions

BTU operates the Rural Electric System which provides electric service to the immediate rural area outside the City of Bryan, extending to most of Brazos County, adjacent to and including portions of the City of College Station, and parts of Burleson, and Robertson counties in a radius of nearly 20 miles from the City of Bryan. BTU's Rural Electric System purchases all of its energy from the City Electric System. BTU's common staff is employed by the City Electric System and is either direct billed to the Rural Electric System or is billed through the City Electric System's purchased power rates. Generally, all power supply, customer service, 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, 2017 and 2016, the Rural Electric System's purchased power, fuel, and regulatory charges were the following:

	FY2017	**FY2016**
Purchased power cost	$ 17,162,790	$ 16,374,791
Fuel cost	12,503,648	12,948,679
Regulatory charges	4,622,901	4,508,399
Total	$ 34,289,339	$ 33,831,869

The Rural Electric System had payables to the City Electric System, as of September 30, 2017 and 2016, in the amount of $3,138,675 and $3,672,858 respectively.

In addition to the $11,918,376 and $11,908,617 transferred to the City of Bryan for right of way in 2017 and 2016, respectively, the City Electric System paid the City of Bryan $737,199 and $773,705 for administrative functions performed by City personnel for the years ended September 30, 2017 and 2016, respectively. These amounts are included in the other expenses in the accompanying financial statements.

The City of Bryan transferred to City Electric System $1,762,263 and $1,515,748 in 2017 and 2016, respectively, for billing services performed by the City Electric System for water, wastewater and solid waste services and joint capital projects that benefited both BTU's and City of Bryan's customers.

12. Commitments and Contingencies

BTU purchase and construction commitments were $398.3 million at September 30, 2017. This amount primarily includes provisions for future fuel and energy purchases.

On May 24, 2017, BTU executed forward market power purchases for the years 2018 through 2022, to replace BTU's share of expected capacity from Gibbons Creek over those respective years. BTU transacted with two counterparties for the total purchase of approximately 3,905,000 MWh.

On October 6, 2015, following a resource planning study, BTU executed forward market power purchases for the years 2018 through 2022. Spread over five years, BTU transacted with four counterparties for the total purchase of approximately 949,000 MWh.

On August 28, 2014, BTU entered into a 25 year power purchase agreement with Los Vientos Windpower, LLC, a subsidiary of Duke Energy. Under the agreement, BTU purchases 33% of the output from wind turbines with a generating capacity of 110 MW from the Los Vientos V wind project in Starr County, Texas; which began commercial operation in December, 2015.

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

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

On November 16, 2007, BTU entered into a 10 year purchased power agreement with a subsidiary of Shell Energy North America (U.S.), L.P. The agreement, which extends from January 1, 2008 to December 31, 2017, allows BTU to schedule up to 50MW of energy on a day-ahead basis. Under the agreement, BTU must make specified minimum monthly non-fuel payments which are included in the $398.3 million of purchase and construction commitments.

On August 29, 2007, BTU entered into a 10 year fixed price purchased power agreement with Credit Suisse Energy, L.L.C. (Credit Suisse) to supply energy to a wholesale customer under a corresponding 10 year fixed price full requirements sale agreement extending from January 1, 2008 to December 31, 2017. This agreement was transferred by Credit Suisse to J.P. Morgan Ventures Energy Corporation (J.P. Morgan) in January 2012. J.P. Morgan transferred the physical power transactions associated with the agreement to Mercuria Energy America, Inc. on September 1, 2015.

In August 2015, during a routine inspection, BTU staff discovered a small surface crack in the Lake Bryan dam and immediately began remedial repair work. Water from Lake Bryan is used to cool BTU's Dansby 1 generating unit. Over time, the crack worsened and eventually spanned approximately 600 horizontal feet of the 17,500 feet long earthen structure. During fiscal years 2016 and 2017, the City Electric System incurred approximately $1.3 million and $7,000, respectively, in expenses to reinforce and stabilize the dam, which are reported as maintenance expenses in the Statement of Revenues, Expenses, and Changes in Net Position. Initial stabilization work was completed in February 2016. No subsequent degradation has been noted, therefore BTU expects to spend a final $600,000 in fiscal year 2018 to complete remaining finish grading and other final repairs to the dam crest and upstream slope in the crest repair area. BTU staff will continue to regularly monitor the status of the dam.

There are currently pending two litigation matters in which the City Electric System is involved. In the event of an unfavorable outcome in either lawsuit, the City Electric System would be covered by insurance and the financial statements of the City Electric System would not be materially affected.

Bryan Texas Utilities
City Electric System
Required Supplementary Information

City of Bryan Schedule of Contributions – Texas Municipal Retirement System
Last Ten Fiscal Years (will ultimately be displayed)

	2015	2016	2017
Actuarially Determined Contribution	$ 7,686,872	$ 8,279,509	$ 8,521,169
Contributions in relation to the actuarially determined contribution	7,686,872	8,279,509	8,521,169
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 48,991,679	$ 54,614,239	$ 55,894,466
Contributions as a percentage of covered payroll	15.69%	15.16%	15.25%

Notes to Schedule of Contributions

For the fiscal year ended September 30, 2017, included in the City of Bryan's contributions to TMRS of $8,521,169, were $2,152,828 in contributions from BTU.

Only three years of data are presented in accordance with GASB Standard No. 68 as the data for the years other than 2015, 2016, and 2017 is not available. Additionally, GASB Standard No. 68 requires that the information on this schedule correspond with the period covered as of the City's fiscal year end of September 30, not the measurement date of the Actuary's report.

Methods and Assumptions Used to Determine the Contribution Ratio

Acutarial Cost Method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining Amortization period	29 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rares multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

Notes: There were no benefits changes this year. The actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

City of Bryan Schedule of Changes in the City's Net Pension Liability & Related Ratios – Texas Municipal Retirement System

Last Ten Years (will ultimately be displayed)

	2014	2015	2016
Total Pension Liability			
Service Cost	$ 7,088,933	$ 7,796,505	$ 8,498,467
Interest (on the Total Pension Liability)	18,281,849	19,160,943	19,655,455
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(1,764,543)	(1,545,768)	450,762
Change of assumptions	-	3,577,731	-
Benefit payments, including refunds of employee contributions	(11,117,789)	(11,685,311)	(12,067,133)
Net Change in Total Pension Liability	12,488,450	17,304,100	16,537,551
Total Pension Liability - Beginning	263,183,703	275,672,153	292,976,253
Total Pension Liability - Ending (a)	$ 275,672,153	$ 292,976,253	$ 309,513,804
Plan Fiduciary Net Position			
Contributions - Employer	$ 7,667,195	$ 7,727,068	$ 8,035,947
Contributions - Employee	3,312,987	3,490,130	3,741,223
Net Investment Income	12,827,812	349,403	15,980,505
Benefit payments, including refunds of employee contributions	(11,117,789)	(11,685,311)	(12,067,133)
Administrative expense	(133,929)	(212,814)	(180,465)
Other	(11,011)	(10,511)	(9,723)
Net Change in Plan Fiduciary Net Position	12,545,265	(342,034)	15,500,354
Plan Fiduciary Net Position - Beginning	224,239,250	236,784,515	236,442,481
Plan Fiduciary Net Position - Ending (b)	$ 236,784,515	$ 236,442,481	$ 251,942,835
Net Pension Liability - Ending (a) - (b)	$ 38,887,638	$ 56,533,772	$ 57,570,969
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.89%	80.70%	81.40%
Covered Payroll	$ 47,328,382	$ 49,849,779	$ 53,382,332
Net Pension Liability as a Percentage of Covered Payroll	82.17%	113.41%	107.85%

Notes to Schedule of Changes in the City's Net Pension Liability and Related Ratios

Only three years of data is presented in accordance with GASB Standard No. 68 as the data for the years other than calendar years 2014, 2015, and 2016 is not available. Additionally, GASB Standard No. 68 requires that the information on this schedule correspond with the period covered as of December 31, the measurement date of the City's net pension liability.

The net pension liability allocated to the City Electric System was $14,846,900 which was determined by the ratio of the City Electric System contributions to TMRS as a percentage of City-wide contributions to TMRS. The ratio was approximately 26% for the year ended September 30, 2017.

City of Bryan Schedule of Contributions in the City's Other Post Employment Benefits (OPEB)

	2015	2016	2017
Annual required contribution (ARC)	$ 900,753	$ 920,004	$ 782,899
Contributions in relation to the ARC	702,316	648,865	1,475,943
Contribution deficiency (excess)	$ 198,437	$ 271,139	$ (693,044)
Contributions as a percentage of the ARC	77.97%	70.53%	188.52%

City of Bryan Schedule of Funding Progress in the City's Other Post Employment Benefits (OPEB)

Actuarial valuation date December 31	2011	2013	2015
Actuarially value of assets (a)	$ -	$ -	$ -
Actuarial accrued liability (AAL) (b)	11,860,133	10,704,428	8,847,176
Unfunded AAL (UAAL) (b-a)	$ 11,860,133	$ 10,704,428	$ 8,847,176
Funded ratio (a/b)	0.0%	0.0%	0.0%
Covered payroll (c)	$ 44,486,837	$ 45,272,820	$ 48,991,679
UAAL as a percentage of covered payroll ((b-a)/c))	26.66%	23.64%	18.06%

Notes to Schedule of Funding Progress

In accordance with GASB 45, the information provided is based on the last three valuations for the years presented. Covered employee payroll is as of the fiscal year ended (September 30) for the year presented.