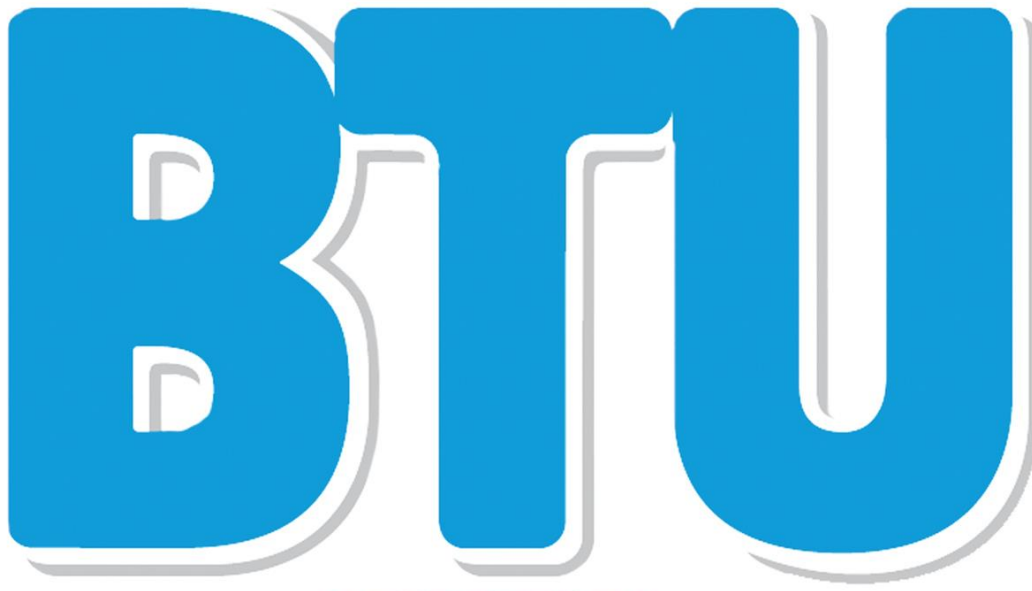


BRYAN TEXAS UTILITIES



THE DIFFERENCE IS **YOU**

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***Bryan Texas Utilities***

**City Electric System**

**Annual Financial Report**

For the Fiscal Years Ended September 30, 2018 and 2017

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**Bryan Texas Utilities**  
**City Electric System**  
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For the Fiscal Years Ended September 30, 2018 and 2017

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**Bryan Texas Utilities  
City Electric System**

**Introduction**

Bryan Texas Utilities (BTU) is pleased to present its Annual Financial Report for the fiscal years ended September 30, 2018 and 2017. 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 General Manager with oversight by the BTU Board of Directors. The BTU Board, established on June 12, 2001, is appointed by the Bryan City Council and is empowered with oversight 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 the policies and procedures in place 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, 2018 and 2017, 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, 2018 and 2017, 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.

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

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***Emphasis of Matters***

Reporting Entity

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, 2018 and 2017, and the respective changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 1, the City Electric System adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) for the year ended September 30, 2018. Beginning net position was restated for the implementation of GASB 75. 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 54-58 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 24, 2019

**Bryan Texas Utilities  
City Electric System**

**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, 2018 and 2017. 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, load and energy transactions 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

**Bryan Texas Utilities**  
**City Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

**Condensed Statements of Net Position**

	<b>September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Current assets	\$ 103,868,643	\$ 89,598,119	\$ 87,199,030
Capital assets, net	328,697,287	325,181,342	297,224,234
Restricted assets	48,820,482	53,624,401	89,501,234
Other	-	-	12,426,256
Total assets	<u>481,386,412</u>	<u>468,403,862</u>	<u>486,350,754</u>
Deferred outflows	10,425,103	20,821,462	18,028,336
Current liabilities	12,574,453	19,245,462	16,352,603
Current liabilities payable from restricted assets	40,888,367	18,198,088	23,353,173
Noncurrent liabilities	<u>228,717,749</u>	<u>261,903,294</u>	<u>279,395,014</u>
Total liabilities	282,180,569	299,346,844	319,100,790
Deferred inflows	6,459,616	2,470,739	2,110,548
Net position:			
Net investment in capital assets	125,967,009	125,683,387	116,349,514
Restricted	15,017,045	9,279,540	15,965,808
Unrestricted	<u>62,187,276</u>	<u>52,444,814</u>	<u>50,852,430</u>
Total net position	<u><u>\$ 203,171,330</u></u>	<u><u>\$ 187,407,741</u></u>	<u><u>\$ 183,167,752</u></u>

**Bryan Texas Utilities**  
**City Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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

	<b>Fiscal Year Ended September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Operating revenues	\$ 199,082,844	\$ 190,064,226	\$ 187,624,655
Operating expenses	<u>162,522,523</u>	<u>166,211,379</u>	<u>165,938,721</u>
Operating income	36,560,321	23,852,847	21,685,934
Investment income	776,947	784,398	652,368
Interest expense	<u>(8,200,308)</u>	<u>(10,241,143)</u>	<u>(9,351,573)</u>
Income before operating transfers & special items	29,136,960	14,396,102	12,986,729
Transfers, net	<u>(10,738,229)</u>	<u>(10,156,113)</u>	<u>(10,392,869)</u>
Changes in net position	18,398,731	4,239,989	2,593,860
Net position, beginning of period	<u>187,407,741</u>	<u>183,167,752</u>	<u>180,573,892</u>
Prior period adjustment - changes in net OPEB liability	(2,635,142)	-	-
Net position, beginning of period, restated	<u>184,772,599</u>	<u>183,167,752</u>	<u>180,573,892</u>
Net position, end of period	<u>\$ 203,171,330</u>	<u>\$ 187,407,741</u>	<u>\$ 183,167,752</u>



**Bryan Texas Utilities**  
**City Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

**Customer Count**

**FY2018** - The City Electric System's retail customer base of 37,660 increased by 841 customers, or 2.3%, compared to FY2017.

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

**Operating Revenue**

**FY2018** - Operating revenues of \$199,082,844 were \$9,018,618, or 4.7%, above the FY2017 total of \$190,064,226. Year over year variances in operating revenue were primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Base retail revenue (customer growth & positive weather impacts)	\$ 3.7
Wholesale revenues (expiration of customer contract)	(1.5)
Fuel revenue (higher fuel and purchased power costs)	5.2
Regulatory revenue (customer growth and weather impacts)	1.0
Higher transmission cost of service revenue	0.6
Total	<u><u>\$ 9.0</u></u>

**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:

	<b>Impact (\$ millions)</b>
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	<u><u>\$ 2.4</u></u>

**Bryan Texas Utilities  
City Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

## Operating Expenses

**FY2018** - Operating expenses of \$162,522,523 were \$3,688,856, or 2.2%, below the FY2017 total of \$166,211,379. Year over year variances in operating expenses were primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Higher fuel and purchased power costs	\$ 5.2
Decreased TMPA demand charges	(9.3)
Lower capacity costs	(1.5)
Transmission cost of service increases	0.2
Higher departmental operating & maintenance expenses	1.5
Higher depreciation	0.2
Total	<u>\$ (3.7)</u>

**FY2017** - Operating expenses \$166,211,379 were \$272,658, or 0.2%, above the FY2016 total of \$165,938,721. Year over year variances in operating expenses were primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
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	<u>\$ 0.3</u>

## Capital Assets

**FY2018** - Net utility plant at September 30, 2018, of \$328,697,287 was \$3,515,945, or 1.1%, higher than the balance of \$325,181,342 at September 30, 2017. The increase in capital assets was primarily the result of transmission and distribution construction expenditures supporting continued customer growth and reliability.

**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.

## Net Position

**FY2018** - Net position at September 30, 2018, was \$203,171,330, of which \$62,627,706 was available to meet the City Electric System's ongoing obligations. The change in net position for the fiscal year ended September 30, 2018, was \$18,398,731.

**Bryan Texas Utilities  
City Electric System**

Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

During FY 2018, BTU implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)* as it relates to the BTU's retiree healthcare plan. This statement establishes updated guidance and standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to OPEB. BTU, through the City of Bryan, provides OPEB through a Defined Benefit OPEB Plan that is administered through a trust. The City of Bryan OPEB Trust was established in FY 2017.

This statement requires a restatement of BTU net position as of October 1, 2017 as follows:

Net Position, beginning of period - as previously reported	\$187,407,741
Net OPEB liability	(3,380,958)
Reverse net OPEB obligation as reported 9/30/17	462,094
Deferred outflow of resources - contributions to OPEB	283,722
Net Position, beginning of period - as restated	<u><u>\$184,772,599</u></u>

For more information on this restatement and OPEB, please see Note 1 and Note 6 in this document.

**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.

## **Significant Events**

### **Long-Term Debt -**

The City Electric System did not issue bonds in the 2018 fiscal year. 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.

At September 30, 2018, there was \$185,475,000, \$30,950,000, and \$5,525,000 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, 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.

### **Rates –**

On October 1, 2016, BTU implemented phase 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

**Bryan Texas Utilities**  
**City Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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.

**Power Supply – Texas Municipal Power Agency (the Agency)**

Effective October 17, 2017, TMPA's Gibbons Creek power plant entered into a seasonal operations mode, operating during the summer months only (June-September). This change was authorized by ERCOT in August 2017. Due to the significant decline in the service utility of the generation assets, such assets were deemed impaired and the TMPA recognized \$227,278,000 in impairment losses in its Statement of Revenues, Expenses and Changes in Net Position through September 30, 2018. Gibbons Creek was placed in mothball status beginning November 2018.

In January 2016 and again in June 2017, TMPA issued requests for proposals ("RFPs") regarding the proposed sale of Gibbons Creek generating station and certain transmission assets. Proposals received in connection with the January 2016 RFP were pursued, but negotiations were ultimately discontinued. Proposals received through the June 2017 RFP are currently under evaluation by TMPA with some negotiations between the proposers and TMPA. The City can make no assurances regarding whether a qualifying proposal for the sale of Gibbons Creek generating facilities and certain TMPA transmission assets will be selected. The City does not anticipate a sale of the transmission assets prior to September 1, 2020, when TMPA transmission debt can be redeemed or prepaid.

**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 2018 and 2017, the City Electric System incurred approximately \$935,000 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. BTU staff will continue to regularly monitor the status of the dam.

On April 9, 2018, BTU executed forward market power purchases for the years 2023 through 2027, to support BTU's projected baseload energy requirements over those respective years. BTU transacted with one counterparty for the total purchase of approximately 4,666,000 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 2018, BTU completed construction of additional transmission projects, including line rebuilds, pole replacements, transformer additions, relay upgrades, breaker replacements, and improvements to warehouses and storage yards. All system improvements contributed to increasing system reliability and allowing BTU to better serve system growth. Transmission projects in 2018 added \$4.5 million to Plant in Service in 2018. A portion of these transmission expenditures, along with other transmission system additions since January 1, 2015, were approved

**Bryan Texas Utilities**  
**City Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

for recovery through the Texas Public Utility Commission's Transmission Cost of Service Rates on April 24, 2018.

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.

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

Effective October 17, 2017, TMPA's Gibbons Creek power plant entered into a seasonal operations mode, operating during the summer months only (June-September) and had 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 balance of Regulatory assets was \$5.2 million at September 30, 2018. The remaining unimpaired \$2.6 million Prepaid Energy Costs associated with TMPA was fully amortized at September 30, 2018.

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 was amortized over the life of the agreement which expired on 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 \$7,250,717 and \$8,300,717 for the fiscal years ended September 30, 2018 and 2017, respectively.

**Other –**

On July 23, 2018, BTU experienced an all-time high summer peak load of 340MW. This was significantly higher than previous BTU all time high summer peak load of 322MW experienced in fiscal year 2017. BTU experienced a winter peak load of 320MW on January 17, 2018, which was higher than the fiscal year 2017 winter peak load of 267MW.

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.

The City Electric System did not transfer any amounts from the Rate Stabilization Fund for the fiscal years ended September 30, 2018 or 2017.

**Subsequent Events –**

On November 14, 2018, the materials management and inventory procurement contract between BTU and KBS Electric Distributors ceased and on November 15, 2018 a new contract for materials management and inventory procurement between BTU and Texas Electric Cooperative (TEC) went into effect. Under the contract with TEC, TEC purchased \$3.6 million of the existing BTU

**Bryan Texas Utilities  
City Electric System**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

distribution inventory during January of FY19. BTU will purchase materials from TEC when issued for use in construction and system maintenance. Some minimal inventory will be carried on the BTU financials, representing mostly critical spare material and refurbished material that is available to be placed back into service.

During fiscal year 2018, BTU completed a cost-of-service and rate study. As a result of the study, there were no changes to retail customers' base rates, but on October 1, 2018 the Rural Electric System wholesale rate decreased by 38% to reflect capacity cost reductions from TMPA. BTU also implemented minor changes to regulatory charges and fuel rates at that time which were revenue neutral to the City System.

On October 8, 2018, BTU entered into a 15 year power purchase agreement with an energy developer that will construct a photovoltaic solar power plant in northeast Texas. Under the agreement, which has an expected commercial operation date of June 2022, BTU will purchase the output from 100MW of generating capacity.

On November 14, 2018, BTU executed forward market power purchases for the years 2023 through 2027, to support BTU's projected energy requirements over those respective years. BTU transacted for the total purchase of approximately 440,785 MWh.

On November 29, 2018, the City of Bryan issued revenue bonds ("2018 Revenue Bonds") totaling \$40,590,000 for the City Electric System. The 2018 Revenue Bonds mature serially beginning July 1, 2020, through July 1, 2043, with coupon rates of 4.0% and 5.0%. The proceeds from the sale of the 2018 Revenue Bonds are restricted to financing costs or expenses incurred in relation to the acquisition or construction of improvements, additions, or extensions to the City Electric System and capital assets, facilities, and equipment incident and related to the operation, maintenance, or administration of the City Electric System.

### **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/>

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BTU General Manager:  
Gary Miller

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BTU Executive Directors:  
Randy Trimble  
David Werley

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

**Bryan Texas Utilities**  
**City Electric System**  
Statements of Net Position  
At September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 11,160,014	\$ 29,291,729
Investments	61,548,054	30,829,568
Accounts receivable	16,964,416	18,019,232
Less allowance for uncollectible accounts	(401,506)	(636,633)
Accrued interest receivable	432,837	212,869
Inventory	5,237,663	4,740,848
Due from other funds	7,900,138	3,138,675
Prepaid energy costs	-	2,966,570
Under-recovered regulatory fee	-	11,068
Other assets	1,027,027	1,024,192
Total current assets	<u>103,868,643</u>	<u>89,598,119</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	554,036	314,036
Investments	48,266,446	53,310,365
Capital assets	502,688,967	485,545,697
Less accumulated depreciation	<u>(173,991,680)</u>	<u>(160,364,355)</u>
Total noncurrent assets	<u>377,517,769</u>	<u>378,805,743</u>
Total assets	<u><u>\$ 481,386,412</u></u>	<u><u>\$ 468,403,862</u></u>
<b><u>Deferred Outflows</u></b>		
Accumulated decrease in fair value of hedging derivatives	\$ 928,054	\$ 6,239,244
TMPA Regulatory Asset	5,175,538	9,459,686
Pensions	4,063,023	5,122,532
Benefits	258,488	-
Total deferred outflows	<u><u>\$ 10,425,103</u></u>	<u><u>\$ 20,821,462</u></u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b><u>Liabilities</u></b>		
Current liabilities:		
Accounts payable	\$ 9,278,014	\$ 11,442,572
Accrued liabilities	553,603	556,089
Due to other funds	1,328,360	872,272
Derivative financial instruments - current portion	682,072	5,567,140
Other current liabilities	732,404	807,389
Total current liabilities	<u>12,574,453</u>	<u>19,245,462</u>
Current liabilities payable from restricted assets:		
Accrued interest	2,244,116	2,258,597
Over-recovered fuel	4,214,490	4,132,634
Over-recovered regulatory fee	190,765	-
Bonds - current portion	29,810,000	7,500,000
Customer deposits	4,428,996	4,306,857
Total current liabilities payable from restricted assets	<u>40,888,367</u>	<u>18,198,088</u>
Non-current liabilities:		
Bonds payable	192,140,000	221,950,000
Bond premium, net	22,107,461	23,665,845
Derivative financial instruments	245,982	672,104
Net pension liability	10,563,906	14,846,900
Other post employment benefits	3,354,049	462,094
Other noncurrent liabilities	306,351	306,351
Total noncurrent liabilities	<u>228,717,749</u>	<u>261,903,294</u>
Total liabilities	<u>\$ 282,180,569</u>	<u>\$ 299,346,844</u>
<b><u>Deferred Inflows</u></b>		
Deferred regulatory liability	\$ 2,668,704	\$ 2,074,126
Pensions	3,790,912	396,613
Total deferred inflows	<u>\$ 6,459,616</u>	<u>\$ 2,470,739</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$ 125,967,009	\$ 125,683,387
Restricted for:		
Debt reserve	5,530,868	5,618,799
Debt service	7,228,125	1,650,625
Rate stabilization	1,704,016	1,696,080
Collateral deposits	554,036	314,036
Unrestricted	62,187,276	52,444,814
Total net position	<u>\$ 203,171,330</u>	<u>\$ 187,407,741</u>

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, 2018 and 2017

	<u><b>FY2018</b></u>	<u><b>FY2017</b></u>
Operating revenues:		
Electrical system	\$ 197,412,987	\$ 188,485,735
Other	1,669,857	1,578,491
Total operating revenues	<u>199,082,844</u>	<u>190,064,226</u>
Operating expenses:		
Personnel services	12,133,214	12,134,272
Electric operations	118,247,170	122,918,106
Maintenance	3,642,683	3,180,363
Other services and charges	724,117	806,946
Other expenses	2,124,438	2,160,978
General and administrative	2,683,516	2,284,119
Depreciation and amortization	22,967,385	22,726,595
Total operating expenses	<u>162,522,523</u>	<u>166,211,379</u>
Operating income	36,560,321	23,852,847
Non-operating revenues (expenses):		
Investment income	776,947	784,398
Interest expense	(8,200,308)	(10,241,143)
Total non-operating revenues (expenses)	<u>(7,423,361)</u>	<u>(9,456,745)</u>
Income before operating transfers	29,136,960	14,396,102
Transfers:		
City of Bryan administrative payment	1,640,870	1,762,263
"Right of Way" payment to City of Bryan	(12,379,099)	(11,918,376)
	<u>(10,738,229)</u>	<u>(10,156,113)</u>
Change in net position	18,398,731	4,239,989
Net position, beginning of period	<u>187,407,741</u>	<u>183,167,752</u>
Prior period adjustment - changes in net OPEB liability	(2,635,142)	-
Net position, beginning of period, restated	<u>184,772,599</u>	<u>183,167,752</u>
Net position, end of period	<u><u>\$ 203,171,330</u></u>	<u><u>\$ 187,407,741</u></u>

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, 2018 and 2017

	<u><b>FY2018</b></u>	<u><b>FY2017</b></u>
<b><u>Cash flows from operating activities</u></b>		
Receipts from customers	\$ 200,173,614	\$ 189,680,408
Payments to suppliers	(137,643,777)	(128,325,535)
Payments to employees	(12,041,547)	(11,147,894)
Net cash provided by operating activities	<u>50,488,290</u>	<u>50,206,979</u>
<b><u>Cash flows from non-capital financing activities</u></b>		
Operating subsidies and transfers from other funds	1,640,870	1,762,263
Operating subsidies and transfers to other funds	(12,379,099)	(11,918,376)
Net cash used by non-capital financing activities	<u>(10,738,229)</u>	<u>(10,156,113)</u>
<b><u>Cash flows from capital and related financing activities</u></b>		
Purchases of capital assets	(15,251,017)	(41,503,236)
Principal paid on capital debt	(7,500,000)	(12,500,000)
Interest paid on capital debt	(9,773,173)	(10,797,710)
Bond issuance costs	-	(784,767)
Payment to escrow agent	-	(2,812,663)
Net cash used by capital and related financing activities	<u>(32,524,190)</u>	<u>(68,398,376)</u>
<b><u>Cash flows from investing activities</u></b>		
Proceeds from sales and maturities of investments	77,000,000	90,000,000
Purchases of investments	(103,079,705)	(135,904,090)
Interest and dividends received	962,119	810,282
Net cash provided/(used) by investing activities	<u>(25,117,586)</u>	<u>(45,093,808)</u>
Net increase/(decrease) in cash and cash equivalents	(17,891,715)	(73,441,318)
Balance-beginning of the year	<u>29,605,765</u>	<u>103,047,083</u>
Balance-end of the year	<u><u>\$ 11,714,050</u></u>	<u><u>\$ 29,605,765</u></u>
<b><u>Reconciliation of Ending Cash Balance</u></b>		
Cash and cash equivalents	\$ 11,160,014	\$ 29,291,729
Cash and cash equivalents – restricted	554,036	314,036
Balances-end of year	<u><u>\$ 11,714,050</u></u>	<u><u>\$ 29,605,765</u></u>

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, 2018 and 2017

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

	<u><b>FY2018</b></u>	<u><b>FY2017</b></u>
Operating income	\$ 36,560,321	\$ 23,852,847
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	22,967,385	22,726,595
Bad debts	123,680	175,262
Change in assets and liabilities:		
Accounts receivable	696,009	(544,429)
Inventory	(496,815)	298,084
Under-recovered regulatory fee	11,068	(11,068)
Other assets	(2,835)	128,454
Deferred outflows/inflows of resources - pensions	1,059,509	996,404
Deferred outflows/inflows of resources - benefits	25,234	-
Due from other funds	(6,839,476)	1,491,641
Accounts payable	(3,473,563)	883,854
Accrued liabilities	(77,472)	(272,067)
Over-recovered fuel	272,622	(219,416)
Over-recovered regulatory	-	(22,052)
Customer deposits	122,139	160,612
Net pension liability and other post-employment benefits	(915,604)	262,042
Due to other funds	456,088	300,216
	<u>                    </u>	<u>                    </u>
Net cash provided by operating activities	<u>\$ 50,488,290</u>	<u>\$ 50,206,979</u>

**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.

**Bryan Texas Utilities**  
**City Electric System**  
Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2018 and 2017

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. 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, 2018 are as follows:

	<b>September 30, 2018</b>		
	<b>BTU City</b>	<b>QSE</b>	<b>Combined</b>
Current assets	\$ 100,897,316	\$ 2,971,327	\$ 103,868,643
Internal balance	774,073	(774,073)	-
Capital assets, net	328,231,831	465,456	328,697,287
Restricted assets	48,820,482	-	48,820,482
Total assets	478,723,702	2,662,710	481,386,412
Deferred outflows	10,425,103	-	10,425,103
Current liabilities	12,433,768	140,685	12,574,453
Current liabilities payable from restricted assets	40,888,367	-	40,888,367
Noncurrent liabilities	228,717,749	-	228,717,749
Total liabilities	282,039,884	140,685	282,180,569
Deferred inflows	6,459,616	-	6,459,616
Net position:			
Net investment in capital assets	125,501,553	465,456	125,967,009
Restricted	15,017,045	-	15,017,045
Unrestricted	60,532,100	1,655,176	62,187,276
Total net position	\$ 201,050,698	\$ 2,120,632	\$ 203,171,330

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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

	<b>September 30, 2017</b>		
	<b>BTU City</b>	<b>QSE</b>	<b>Combined</b>
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	18,198,088	-	18,198,088
from restricted assets			
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	<u>\$ 185,287,109</u>	<u>\$ 2,120,632</u>	<u>\$ 187,407,741</u>

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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, 2018, are as follows:

	<b>Fiscal Year Ended September 30, 2018</b>		
	<b>BTU City</b>	<b>QSE</b>	<b>Combined</b>
Operating revenues	\$ 197,591,122	\$ 1,491,722	\$ 199,082,844
Operating expenses	161,030,801	1,491,722	162,522,523
Operating income	36,560,321	-	36,560,321
Investment income	776,947	-	776,947
Interest expense	(8,200,308)	-	(8,200,308)
Income before operating transfers	29,136,960	-	29,136,960
Transfers, net	(10,738,229)	-	(10,738,229)
Changes in net position	18,398,731	-	18,398,731
Net position, beginning of period	185,287,109	2,120,632	187,407,741
Prior period adjustment - changes in net OPEB liability	(2,635,142)	-	(2,635,142)
Net position, beginning of period, restated	182,651,967	2,120,632	184,772,599
Net position, end of period	<u>\$ 201,050,698</u>	<u>\$ 2,120,632</u>	<u>\$ 203,171,330</u>

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:

	<b>Fiscal Year Ended September 30, 2017</b>		
	<b>BTU City</b>	<b>QSE</b>	<b>Combined</b>
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	<u>\$ 185,287,109</u>	<u>\$ 2,120,632</u>	<u>\$ 187,407,741</u>

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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, 2018, the City Electric System adopted the following new accounting pronouncements:

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.

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

The following table provides a reconciliation of net position at September 30, 2017, as previously reported, to net position at September 30, 2017, as restated:

Net Position, beginning of period - as previously reported	\$187,407,741
Net OPEB liability	(3,380,958)
Reverse net OPEB obligation as reported 9/30/17	462,094
Deferred outflow of resources - contributions to OPEB	283,722
Net Position, beginning of period - as restated	<u>\$184,772,599</u>

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. 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



**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

- 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.

The following guidance issued by GASB is effective for years following FY 2018 and is expected to be applicable to the City Electric System:

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. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This statement is effective for periods beginning after December 15, 2018.

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.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

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, 2018 and 2017, the City Electric System reported a current liability – over-recovered fuel of \$4,214,490 and \$4,132,634, 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, 2018 and 2017, the City Electric System reported a current liability – over-recovered regulatory fee of \$ 190,765 , and a current asset – under-recovered regulatory fee of \$11,068, respectively.

Prepaid Energy Costs, Impairment of Prepaid Energy Costs and Regulatory Assets Effective October 17, 2017, TMPA's Gibbons Creek power plant entered into a seasonal operations mode, operating during the summer months only (June-September) and had 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 balance of Regulatory Assets was \$5.2 million at September 30, 2018. The remaining unimpaired \$2.6 million Prepaid Energy Costs associated with

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For the Fiscal Years Ended September 30, 2018 and 2017

TMPA was fully amortized at September 30, 2018. See Note 10 – Texas Municipal Power Agency for a further discussion of TMPA activities. 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 was amortized over the life of the agreement which expired on 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 \$7,250,717 and \$8,300,717 for the fiscal years ended September 30, 2018 and 2017, respectively.

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 \$0 and \$784,767 for the fiscal years ended September 30, 2018 and 2017, 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.

OPEB - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about fiduciary net position of the City of Bryan Post-employment Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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.

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, 2018 and 2017, the City Electric System collected \$677,975 and \$602,914, respectively, of AIC. The amortization of the deferred regulatory liability was \$83,397 and \$64,816 for 2018 and 2017, 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.

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, 2018 and 2017 were held at Branch Banking & Trust Company. These deposits were entirely covered by federal depository insurance or by collateral equal to at least 102% of the deposits. For deposits that were collateralized, the securities were in accordance with the Texas Public Funds Collateral Act.

Investments

The BTU investment program is guided by Texas state statutes, by various City ordinances, and by City of Bryan investment policy which amplifies those guidelines and prescribes how the City Electric System will operate its investment program in accordance with applicable laws and regulations. The City's policy, which was adopted on September 12, 2017 for the fiscal year ending September 30, 2018, 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.

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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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, 2018 and 2017 is summarized as follows:

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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

	<b><u>FY2018</u></b>	<b><u>FY2017</u></b>
Demand deposits	\$ 11,160,014	\$ 29,291,729
Government pool	15,524,900	19,164,201
Collateral deposits with counterparty	554,036	314,036
Treasuries	49,105,100	-
Agency securities	45,184,500	64,975,733
Total	<b><u>\$ 121,528,550</u></b>	<b><u>\$ 113,745,699</u></b>

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, 2018 are as follows:

		<b>Fair Value Measurements</b>		
	<b><u>Value at FYE</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
		<b><u>Inputs</u></b>	<b><u>Inputs</u></b>	<b><u>Inputs</u></b>
Investments measured at net asset value (NAV)				
Investment Pools				
TexStar	\$ 15,524,900	\$ -	\$ -	\$ -
Investments by fair value level				
Treasuries	49,105,100	49,105,100	-	-
U.S. Agency Bonds	45,184,500	-	45,184,500	-
Total	<b><u>\$ 109,814,500</u></b>	<b><u>\$ 49,105,100</u></b>	<b><u>\$ 45,184,500</u></b>	<b><u>\$ -</u></b>

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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

The investment balances at September 30, 2017 are as follows:

	<u>Value at FYE</u>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
		<b>Inputs</b>	<b>Inputs</b>	<b>Inputs</b>
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	<u>\$ 84,121,934</u>	<u>\$ -</u>	<u>\$ 64,957,733</u>	<u>\$ -</u>

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, 2018, the City Electric System had the following investments:

<u>Investment Types</u>	<u>Fair Value</u>	<b>Investment Maturity</b>		
		<b>(in Years)</b>		
		<b><u>Less</u></b>	<b><u>1 - 5</u></b>	<b><u>Greater</u></b>
		<b><u>Than 1</u></b>		<b><u>Than 5</u></b>
Government pool	\$ 15,524,900	\$ 15,524,900	\$ -	\$ -
Treasuries	49,105,100	29,709,000	19,396,100	
Agency securities	45,184,500	11,947,550	33,236,950	-
Total fair value	<u>\$ 109,814,500</u>	<u>\$ 57,181,450</u>	<u>\$ 52,633,050</u>	<u>\$ -</u>

The City Electric System's investment in government pool includes deposits in TexStar. TexStar is a local government investment pool created by local governments and administered by FirstSouthwest, a division of Hilltop Securities, and J.P. Morgan Investment Management, Inc, 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



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For the Fiscal Years Ended September 30, 2018 and 2017

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 102% 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 2018, cash and investments of \$121.5 million exceeded amounts required to be restricted by \$72.7 million. In 2017, cash and investments of \$113.7 million exceeded amounts required to be restricted by \$60.1 million. The City Electric System did not transfer rate stabilization funds to unrestricted assets in fiscal year 2018 or 2017.

Amounts required to be restricted at September 30, 2018 and 2017 are as follows:

	<b>FY2018</b>	<b>FY2017</b>
Rate stabilization fund	\$ 1,704,016	\$ 1,696,080
Debt reserve	5,530,868	5,618,799
Debt service	9,472,241	3,909,221
Bond funds for construction	22,725,070	33,646,774
Over-recovered fuel expense	4,214,490	4,132,634
Over-recovered regulatory fee	190,765	-
Customer deposits	4,428,996	4,306,857
Collateral deposits	554,036	314,036
Restricted cash and investments	<u>\$ 48,820,482</u>	<u>\$ 53,624,401</u>

**3. Capital Assets**

General Description – Total capital assets include production, transmission, distribution and general plant facilities. At September 30, 2018, 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.

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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, 2018.

Capital asset activity for the fiscal year ended September 30, 2018 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 6,021,381	\$ 10,100	\$ -	\$ 6,031,481
Construction in Progress	22,677,348	17,804,019	22,403,352	18,078,015
Retirement in Progress	217,654	1,039,228	1,124,375	132,507
Total capital assets, not being depreciated	28,916,383	18,853,347	23,527,727	24,242,003
Capital assets, being depreciated:				
Production Plant	106,907,232	270,469	-	107,177,701
Transmission Plant	176,757,848	4,501,766	878,773	180,380,841
Distribution Plant	144,658,327	15,339,876	242,435	159,755,768
General Plant (including QSE)	28,305,907	2,959,116	572,798	30,692,225
Non-Utility Plant	-	440,429	-	440,429
Total capital assets, being depreciated	456,629,314	23,511,656	1,694,006	478,446,964
Less accumulated depreciation for:				
Production Plant	49,516,525	3,528,646	-	53,045,171
Transmission Plant	37,375,675	5,519,361	1,079,657	41,815,379
Distribution Plant	58,750,120	4,680,586	693,232	62,737,474
General Plant (including QSE)	14,722,035	2,071,471	399,850	16,393,656
Non-Utility Plant	-	-	-	-
Total accumulated depreciation	160,364,355	15,800,064	2,172,739	173,991,680
Total capital assets, being depreciated, net	296,264,959	7,711,592	(478,732)	304,455,284
Total capital assets, net	\$ 325,181,342	\$ 26,564,940	\$ 23,048,995	\$ 328,697,287

Depreciation and amortization totals \$23.0 million and \$22.7 million, for the fiscal years ended September 30, 2018 and 2017, respectively, which includes \$7.3 million and \$8.3 million for the fiscal years ended September 30, 2018 and 2017, respectively related to amortization of prepaid energy. Cash paid for removal costs were approximately \$1,039,000 and \$2,759,000 for the years ended September 30, 2018 and 2017, respectively.

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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

4. Long-Term Debt

The City Electric System did not issue bonds in the 2018 fiscal year. For the fiscal year ended September 30, 2017, the City Electric System 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.

In the fiscal year-ended 2018 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, 2018, no City Electric System defeased revenue bonds were outstanding.

Changes to long term debt during fiscal year 2018, including current portion are as follows:

	<b>Interest Rates (%)</b>	<b>Series Matures</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due in One Year</b>
<u>Revenue Bonds:</u>							
Series 2010	5.000	2019	21,355,000	-	380,000	20,975,000	20,975,000
Series 2012	3.125 - 5.000	2037	41,555,000	-	2,425,000	39,130,000	2,505,000
Series 2016	3.000 - 5.000	2041	71,045,000	-	365,000	70,680,000	1,960,000
Series 2017	3.000 - 5.000	2034	57,225,000	-	2,535,000	54,690,000	2,575,000
Total Revenue Bonds			191,180,000	-	5,705,000	185,475,000	28,015,000
<u>Certificates of Obligation:</u>							
Series 2014	2.000 - 5.000	2039	31,995,000	-	1,045,000	30,950,000	1,070,000
Total Certificates of Obligation			31,995,000	-	1,045,000	30,950,000	1,070,000
<u>General Obligation Bonds</u>							
Series 2015	2.000 - 4.000	2025	6,275,000	-	750,000	5,525,000	725,000
Total General Obligation Bonds			6,275,000	-	750,000	5,525,000	725,000
Total long-term debt			\$229,450,000	\$ -	\$ 7,500,000	\$221,950,000	\$ 29,810,000

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, 2018 and 2017.

Under the terms of the revenue bond covenants, City Electric System is required to maintain minimum reserve fund requirements equal to approximately one year of revenue bond debt service requirements.

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Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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, certificates of obligation, and general obligation bonds are summarized as follows:

**Revenue Bonds**

<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	6,965,000	5,933,907	12,898,907
2024 - 2028	40,155,000	24,346,938	64,501,938
2029 - 2033	47,525,000	13,643,750	61,168,750
2034 - 2038	28,890,000	5,247,181	34,137,181
2039 - 2041	12,210,000	863,900	13,073,900
Total	<u>\$ 185,475,000</u>	<u>\$ 78,346,454</u>	<u>\$ 263,821,454</u>

**Certificates of Obligation**

<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	1,175,000	930,241	2,105,241
2024 - 2028	6,550,000	3,997,656	10,547,656
2029 - 2033	7,665,000	2,875,714	10,540,714
2034 - 2038	9,110,000	1,430,178	10,540,178
2039	2,030,000	77,140	2,107,140
Total	<u>\$ 30,950,000</u>	<u>\$ 13,334,643</u>	<u>\$ 44,284,643</u>

**Bryan Texas Utilities**  
**City Electric System**  
Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

**General Obligation Bonds**

<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	810,000	77,275	887,275
2024 - 2025	1,705,000	72,550	1,777,550
<b>Total</b>	<b>\$ 5,525,000</b>	<b>\$ 703,325</b>	<b>\$ 6,228,325</b>

**Total Debt**

<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	8,950,000	6,941,423	15,891,423
2024 - 2028	48,410,000	28,417,144	76,827,144
2029 - 2033	55,190,000	16,519,464	71,709,464
2034 - 2038	38,000,000	6,677,359	44,677,359
2039 - 2041	14,240,000	941,040	15,181,040
<b>Total</b>	<b>\$ 221,950,000</b>	<b>\$ 92,384,422</b>	<b>\$ 314,334,422</b>

In the Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended September 30, 2018 and 2017, interest expense is recorded in the amount of \$8,200,308 and \$10,241,143, respectively, and is included as a non-operating expense.

5. **Retirement Plan**

BTU is an integral part of the City, and as such, provides pension benefits for all its full-time employees through the City retirement plan. The following covers the City's retirement plan as a whole, unless indicated otherwise.

**Plan Description** The City of Bryan participates as one of 823 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](http://www.tmrs.com).

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

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. 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.

Employees Covered by Benefit Terms At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	579
Inactive employees entitled to but not yet receiving benefits	442
Active employees	<u>875</u>
Total	<u><u>1,896</u></u>

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 15.29% and 15.22% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$8,887,727, and were equal to the required contributions. The City Electric System's contributions for the year ended September 30, 2018 were \$2,219,516.

**Bryan Texas Utilities  
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Notes to Financial Statements - continued  
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Net Pension Liability The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 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 not adjusted by any additional factors. 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, 2017, 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
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%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	<u>5.0%</u>	7.50%
Total	100.0%	

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

**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. The projection of cash flows used to determine the single discount rate assumed the funding policy adopted by the TMRS Board will remain in effect for all future years. Under this funding policy, the City will finance the unfunded actuarial liability over a fixed period of time based on the actuarial assumptions. This funding policy also provides for the financing of the employer portion of all future benefits as they accrue.

**Changes in the Net Pension Liability**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balance at 12/31/2016</b>	\$309,513,804	\$ 251,942,835	\$ 57,570,969
Changes for the year:			
Service Cost	8,991,102	-	8,991,102
Interest	20,795,590	-	20,795,590
Change of benefit terms	-	-	-
Difference between expected and actual experience	395,105	-	395,105
Changes of assumptions	-	-	-
Contributions - employer	-	8,656,073	(8,656,073)
Contributions - employee	-	3,964,541	(3,964,541)
Net investment income	-	34,922,324	(34,922,324)
Benefit payments, including refunds of employee contributions	(11,853,082)	(11,853,082)	-
Administrative expense	-	(180,962)	180,962
Other changes	-	(9,171)	9,171
Net changes	18,328,715	35,499,723	(17,171,008)
<b>Balance at 12/31/2017</b>	<u>\$ 327,842,519</u>	<u>\$ 287,442,558</u>	<u>\$ 40,399,961</u>
<b>Balance at 12/31/2017 - City Electric System</b>			<u>\$10,563,906</u>

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 years ended September 30, 2018 and 2017.



**Bryan Texas Utilities  
City Electric System**

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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's net pension liability	\$ 23,246,110	\$ 10,563,906	\$ 223,716

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.tmr.com](http://www.tmr.com).

Pension Expense and Deferred Outflows/Inflows of Resources related to Pensions For the years ended September 30, 2018 and 2017, the City Electric System recognized pension expense of \$2,390,331 and \$3,233,367, respectively.

At September 30, 2018, 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	\$ 165,162	\$ (212,680)
Changes in actuarial assumptions	324,505	-
Difference between projected and actual investment earnings	1,874,537	(3,578,232)
Contributions subsequent to the measurement date	1,698,819	-
Total	<u>\$ 4,063,023</u>	<u>\$ (3,790,912)</u>

Deferred outflows of resources of \$1,698,819 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ended September 30
2019	\$ 139,918
2020	17,161
2021	(782,027)
2022	(801,760)
2023	-
Thereafter	-
Total	<u>\$ (1,426,708)</u>

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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	<u>\$ 5,122,532</u>	<u>\$ (396,613)</u>

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

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

The City does not offer life insurance coverage for retirees or their dependents. Employees who retire are eligible to convert their group life insurance coverage to a Whole Life Policy without accidental death

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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 Council 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, 2018, retirees paid \$616,120 in premiums and \$1,673,984 in claims and premiums were paid for post-retirement health care and administrative charges. As of September 30, 2018, the City has 80 retirees and beneficiaries participating in the plan.

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.

COBRA participants are reimbursed at the same levels as active employees. Participants paid premiums of \$39,565 and incurred claims and administrative expenses of \$159,119 during the year ended September 30, 2018. As of September 30, 2018, the City has 4 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 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.

Funding Policy and Annual OPEB Cost

During FY 2017, the City Council adopted a funding policy for the City's OPEB liability. During FY 2018 \$625,000 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 following is a summary of the employees covered by the Plan at September 30, 2018:

Inactive plan members or beneficiaries currently receiving benefits	80
Inactive plan members entitled but not yet receiving benefits	0
Active plan members	<u>843</u>
Total plan members	<u><u>923</u></u>

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Notes to Financial Statements - continued  
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Contributions to the Plan

For the year ended September 30, 2018 the City's contributions were \$1,471,374, or 2.52% of covered payroll, and the City Electric System's contributions were \$315,524 (See the Required Supplementary section of this report for more information on contributions to the Plan).

Net OPEB Liability

The City's net OPEB liability was measured as of December 31, 2017 (the measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. As of the measurement date the total OPEB liability was \$16,491,526 and the net OPEB liability (net of plan fiduciary net position of \$641,541) was \$15,849,985.

The total OPEB liability, and the Actuarial Determined Contribution (ADC) at the measurement date were determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry Age Normal
Amortization method	Level percentage of payroll
Remaining Amortization period	Closed, 30-years as of September 30, 2018
Asset Valuation Method	Market Value
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Payroll Growth	1.50%
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS).
Mortality	For healthy retirees, the gender-distinct RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates being multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Participation Rates	It was assumed that 65% of retirees who are eligible for the rule of 80 discount and 10% of those who are not eligible for the rule of 80 discount would choose to receive coverage through the City.
Health Care Cost Trend Rates	Initial rates of 7.50% declining to ultimate rates of 5.25% after 11 years; Ultimate trend rate includes a 1.00% adjustment for the excise tax.

The actuarial assumptions used at the measurement date valuation were based on the results of an actuarial experience study performed as of December 31, 2017 and a measurement date of December 31, 2017.

For the purposes of the valuation performed as of December 31, 2017, the expected rate of return on OPEB plan investments is 6.50%. The municipal bond rate is 3.31% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"), and the resulting Single Discount Rate is 6.50%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal or in excess of the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Bryan Texas Utilities**

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Notes to Financial Statements - continued

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<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>	<b>Allocation- weighted Long-term Expected Real Rate of Return</b>
Domestic Equity - Large Cap	26.50 %	5.58 %	1.48 %
Domestic Equity - Small/Mid Cap	12.50 %	5.92 %	0.74 %
Non-US Equity - Developed	6.00 %	5.71 %	0.34 %
Non-US Equity - Emerging	3.25 %	6.80 %	0.22 %
US Corporate Bonds - Core	43.50 %	2.27 %	0.99 %
US Corporate Bonds - Long Dur.	0.00 %	2.56 %	0.00 %
US Corporate Bonds - High Yield	1.50 %	4.50 %	0.07 %
Non-US Debt - Developed	0.00 %	1.39 %	0.00 %
Non-US Debt - Emerging	0.00 %	4.12 %	0.00 %
US Treasuries (Cash Equivalents)	5.00 %	0.84 %	0.04 %
TIPS (Inflation Protected)	0.00 %	1.63 %	0.00 %
Real Estate	1.75 %	4.44 %	0.08 %
Hedge Funds	0.00 %	3.85 %	0.00 %
Commodities	0.00 %	2.53 %	0.00 %
Infrastructure	0.00 %	4.81 %	0.00 %
Private Equity	0.00 %	8.02 %	0.00 %
<b>Total</b>	<b>100.00 %</b>		<b>3.96 %</b>
Expected Inflation			<b>2.50 %</b>
<b>Total Return</b>			<b>6.46 %</b>

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Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a-b)
<b>Balance at 12/31/2016</b>	\$ 15,975,467	\$ -	\$ 15,975,467
Changes for the year:			
Service cost	478,077	-	478,077
Interest on the total OPEB liability	1,021,963	-	1,021,963
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Employer contributions	-	(1,608,981)	(1,608,981)
Net investment income	-	(17,311)	(17,311)
Benefits payments	(983,981)	983,981	-
Administrative expense	-	770	770
Other	-	-	-
Net changes	516,059	(641,541)	(125,482)
<b>Balance at 12/31/2017</b>	<u>\$ 16,491,526</u>	<u>\$ (641,541)</u>	<u>\$ 15,849,985</u>
<b>Balance at 12/31/2017 - City Electric System</b>			<u><u>\$3,354,049</u></u>

The portion of the net OPEB liability, deferred inflows, deferred outflows and OPEB expense allocated to the City Electric System was determined by the ratio of full time equivalent employees of BTU as a percentage of full time equivalent employees at the City. The ratio was approximately 21% for the year ended September 30, 2018.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following shows the sensitivity of the net OPEB liability to a 1.0% increase and a 1.0% decrease in the discount rate assumption:

	1% Decrease in Discount Rate <b>5.50%</b>	Discount Rate <b>6.50%</b>	1% Increase in Discount Rate <b>7.50%</b>
City Electric's net OPEB liability	\$ 3,733,838	\$ 3,354,049	\$ 3,021,243

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Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following shows the sensitivity of the net OPEB liability to a 1.0% increase and a 1.0% decrease in the healthcare cost trend rate assumption:

	<u>1.0% Decrease</u>	<u>Current Rate Assumption</u>	<u>1.0% Increase</u>
City Electric's net OPEB liability	\$ 2,972,297	\$ 3,354,049	\$ 3,808,685

OPEB Expense and Deferred Outflows of Resources

For the year ended September 30, 2018, the City System recognized OPEB expense of \$313,850. At September 30, 2018, the City System reported deferred outflows of resources related to OPEB from the following sources and in the following amounts:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience, liability	\$ -	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual experience, asset	511	-
Contributions subsequent to the measurement date	257,977	-
Total	<u>\$ 258,488</u>	<u>\$ -</u>

The \$257,977 reported as deferred outflows of resources related to OPEB resulting from contributions made after the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2019. Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending September 30</u>	<u>Net Deferred Outflows (Inflows)</u>
2019	\$ 127
2020	127
2021	128
2022	129
2023	-
Thereafter	-
Total	<u>\$ 511</u>

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The statement of fiduciary net position for the OPEB plan, which is included as a fiduciary fund in the City of Bryan financial statements, is as follows:

<b>Statement of Fiduciary Net Position</b>	
	<u><b>December 31, 2017</b></u>
<b>Assets</b>	
Investments (fair value)	\$ 641,541
<b>Total assets</b>	<u><u>\$ 641,541</u></u>
<b>Liabilities</b>	
Payables	\$ -
<b>Total liabilities</b>	<u><u>\$ -</u></u>
<b>Net position restricted for OPEB</b>	<u><u>\$ 641,541</u></u>

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 to each City department based upon a percentage of estimated current year payroll and management's estimate of projected current costs. For the years ended September 30, 2018 and 2017, the City Electric System paid the City \$618,778 and \$582,185, 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, 2018, 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 Houston Ship Channel (HSC) natural gas purchases, or related commodities, to serve budgeted load. BTU projects total natural gas needs as part



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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 2018. The correlation coefficient of (0.858) exceeds the minimum standard established by GASB 53 and indicates a strong linear relationship between the NYMEX and HSC prices. The calculated R<sup>2</sup> value of 0.9597 indicates that the changes in cash flows of the hedge substantially offset the changes in cash flows of the hedgeable item. The City Electric System also utilizes HSC indexed gas commodity swaps to hedge its open exposure after a NYMEX-based swap contract month settles. The City Electric System entered into Platts Gas Daily swaps to hedge this exposure. These HSC indexed swaps are hedging the physical purchases of natural gas also based on the HSC index and are effective cash flow hedges under the consistent critical terms method as defined by GASB 53. The swap is for the purchase of virtually the same quantity of the hedgeable item, has zero fair value at inception, and the reference rate of the swap and the hedgeable item are the same (HSC index).

For the fiscal years ended September 30, 2018 and 2017, the total fair value of outstanding hedging derivative instruments was a net liability of \$928,054 and \$6,239,244, 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 \$682,072 and \$5,567,140 at September 30, 2018 and 2017, 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 \$245,982 and \$672,104 at September 30, 2018 and 2017, 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, 2018, the fair value of the City Electric System's hedging derivative instruments - NYMEX-based commodity swaps - increased by \$5,311,190; 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 commodity 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, 2018 and 2017, the deferred outflows of resources related to hedging derivatives were \$928,054 and \$6,239,244 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, 2018:

Type	Terms	Volume Hedged (MMBtu)	Effective Dates	Maturity Dates	Reference Index	Fair Value
Commodity Swaps	BTU pays prices of \$2.522 - 6.42	4,288,000	Sep 2010 - Aug 2018	Oct 2018 - Dec 2020	NYMEX	\$(928,054)

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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 - Jul 2017	Oct 2017 - Dec 2020	NYMEX	\$(6,239,244)

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 2018, prompt month prices were \$2.895/MMBtu and \$2.994/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 \$12,260,892 for the twelve month period which began January 1, 2018 and ends December 31, 2018. These stop loss levels apply to both medical and prescription drug coverage. 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 \$238,255 for calendar year 2016, \$601,994 for calendar year 2017, and \$364,840 for calendar year 2018 to date in settlements that exceed insurance coverage applicable to individual stop loss coverage.

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

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

	FY 2018	FY 2017
Beginning balance unpaid claims	\$ 1,264,047	\$ 1,063,007
Incurring claims	10,060,959	9,747,452
Claim payments	(9,970,530)	(9,546,412)
Ending balance unpaid claims	<u>\$ 1,354,476</u>	<u>\$ 1,264,047</u>
Amounts due in one year	\$ 1,354,476	\$ 1,264,047

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.

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 and the Agency recognized \$227,278,000 in impairment losses in its Statement of Revenues, Expenses and Changes in Net Position through September 30, 2018. Gibbons Creek was placed in mothball status beginning November 2018.

TMPA is governed by a Board of Directors made up of two representatives from each Member City and is empowered to plan, finance, acquire, construct, own, operate and maintain facilities to be used in the business of generation, transmission and sale of electric energy to each Member City. Each of the Member Cities entered into separate but identical Power Sales Contracts with TMPA (as amended, the “TMPA Agreements”). For more than 40 years, the TMPA Agreement governed the relationship between, and the rights and obligations of, TMPA and each of the Member Cities with respect to, among other items, generation, including Gibbons Creek, transmission and sale of electric energy to each Member City. Under the terms of the TMPA Agreement, each of the Member Cities was unconditionally obligated to pay to TMPA, without offset or counterclaim and without regard to whether energy was delivered by TMPA to the Member Cities, its percentage of TMPA’s Annual System Cost as defined in the TMPA Agreement, including the payment of TMPA’s debt service requirements and operating and maintenance expenses in the following percentages: City of Bryan – 21.7%; City of Denton – 21.3%; City of Garland – 47.0% and City of Greenville – 10.0%. On September 1, 2018 TMPA made the final debt service payment on TMPA’s generation debt which extinguished the Member City’s unconditional obligation with respect to such TMPA debt. The TMPA Agreement has expired by its terms and none of the Member Cities elected to extend the TMPA Agreement beyond September 30, 2018.

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

TMPA and the Member Cities entered into a Joint Operating Agreement (“JOA”) effective September 1, 2016. The JOA was amended effective September 15, 2016 (“Amendment No. 1”), in large part to accommodate a proposed sale of certain assets of TMPA, including Gibbons Creek and a portion of the transmission facilities of TMPA. Amendment No. 1 was conditioned on the closing of that sale, but in May 2017 negotiations for that sale were finally discontinued and Amendment No. 1 became ineffective in accordance with its terms. A second amendment to the JOA (“Amendment No. 2”) was negotiated and became effective on September 22, 2017. In addition to removing the terms of Amendment No. 1, Amendment No. 2 (i) clarified provisions related to mine reclamation bonds; (ii) provided for some sales of TMPA transmission assets (\$250,000 individual / \$500,000 total per year); and (iii) allowed for seasonal operations notification without enacting the 24-month termination provision. The JOA consists of the original agreement dated September 1, 2016 as amended by Amendment No. 2. The JOA shall remain in effect until the dissolution of TMPA or termination by the Member Cities.

Since all of the Member Cities elected not to extend the TMPA Agreement and the TMPA Agreement has expired, TMPA will, unless the parties enter into a new power sales agreement, cease power production at Gibbons Creek. The JOA represents the post-2018 plans for TMPA and the Member Cities and is intended to provide terms of agreement for (1) TMPA operations outside the scope of the TMPA Agreement, (2) matters relating to decommissioning of Gibbons Creek at such time as it may be removed from service, (3) disposition of TMPA assets, and (4) matters relating to dissolution of TMPA, at such time as it may be dissolved.

Among other matters, the JOA (1) allocates the costs of TMPA transmission operations to the Member Cities in accordance with Member City percentages as they existed at expiration of the TMPA Agreement, (2) establishes formulas for determining each Member City’s ownership interest in TMPA assets (such calculations generally being based on each City’s proportional share of payments made to TMPA) and used to allocate TMPA assets or proceeds of the sale thereof to each Member City, and (3) provides for the allocation among the Member Cities of TMPA transmission assets if a majority of the Member Cities authorize the transfer of ownership of the TMPA transmission assets. The JOA divides TMPA assets and operations into three business categories – generation, transmission, and mining – and establishes protocols for Member Cities to exit one or more business categories. The JOA creates a reserve account to be held by an escrow agent for decommissioning costs for Gibbons Creek to be funded at \$30,000,000, and a reserve account to be held by an escrow agent for indemnification costs for environmental claims against Member Cities to be funded at \$5,000,000 or such other amount approved by the Member Cities. The decommissioning and indemnification reserves are to be funded over time from surplus TMPA operating revenues and from asset sale proceeds after payment of any related debt. Decommissioning costs above amounts in the decommissioning reserve account are to be allocated to the Member Cities. Under the JOA as written, the TMPA Board of Directors is obligated to adopt a decommissioning plan no later than September 1, 2017 for Gibbons Creek at such time as it may be removed from service. However, pending the effort to sell Gibbons Creek, discussed below, the Member Cities have executed documentation waiving and suspending this deadline until such time as the effort to sell Gibbons Creek is discontinued. Finally, the JOA requires Member City approval for a number of TMPA actions, including the: (i) sale of all or part of TMPA transmission assets to a third party, (ii) adoption of a budget or amended budget that exceeds 20% of the previous year’s budget, (iii) issuance of debt (other than transmission debt), (iv) execution of a contract exceeding a term of two years, or a contract for more than \$10 million, and (v) sale of property having a value in excess of \$10 million (other than mining property).

Under the JOA, each Member City has covenanted to establish, maintain and collect rates and charges for the electric service of its electric system which shall produce revenues at least sufficient, together

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

with other revenue available to such electric system and available electric system reserves, to enable it to pay to TMPA, when due, all amounts payable by such Member City under the JOA.

In January 2016 and again in June 2017, TMPA issued requests for proposals (“RFPs”) regarding the proposed sale of Gibbons Creek generating station and certain transmission assets. Proposals received in connection with the January 2016 RFP were pursued, but negotiations were ultimately discontinued. Proposals received through the June 2017 RFP are currently under evaluation by TMPA with some negotiations between the proposers and TMPA. The City can make no assurances regarding whether a qualifying proposal for the sale of Gibbons Creek generating facilities and certain TMPA transmission assets will be selected. The City does not anticipate a sale of the transmission assets prior to September 1, 2020, when TMPA transmission debt can be redeemed or prepaid.

At September 30, 2018, BTU’s portion of outstanding TMPA bonds and note purchase agreement was approximately \$45.7 million. At September 30, 2017, BTU’s portion of outstanding TMPA bonds and commercial paper was approximately \$65.0 million.

During the years ended September 30, 2018 and 2017, the City Electric System paid TMPA \$27,602,871 and \$49,428,176 respectively for power purchases and related activity under the contract. As of September 30, 2018 and 2017, the City Electric System had payables to TMPA amounting to \$0 and \$929,666, respectively.

The TMPA’s Comprehensive Annual Financial Report for the year ended September 30, 2018 reported the following:

	<b>FY2018</b>
Total Assets	\$ 269,423,000
Total Deferred Outflows of Resources	-
Total Liabilities	255,208,000
Total Deferred Inflows of Resources	-
Total Net Position	<u>\$ 14,215,000</u>
Change in Net Position for year ended September 30, 2018	\$ 30,672,000

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.

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

For the fiscal years ended September 30, 2018 and 2017, the Rural Electric System's purchased power, fuel, and regulatory charges were the following:

	<b>FY2018</b>	<b>FY2017</b>
Purchased power cost	\$ 19,446,505	\$ 17,162,790
Fuel cost	15,593,439	12,503,648
Regulatory charges	5,225,190	4,622,901
Total	<u>\$ 40,265,134</u>	<u>\$ 34,289,339</u>

The Rural Electric System had payables to the City Electric System, as of September 30, 2018 and 2017, in the amount of \$7,900,138 and \$3,138,675 respectively.

In addition to the \$12,379,099 and \$11,918,376 transferred to the City of Bryan for right of way in 2018 and 2017, respectively, the City Electric System paid the City of Bryan \$867,368 and \$737,199 for administrative functions performed by City personnel for the years ended September 30, 2018 and 2017, respectively. These amounts are included in the other expenses in the accompanying financial statements.

The City of Bryan transferred to City Electric System \$1,640,870 and \$1,762,263 in 2018 and 2017, 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 \$520.2 million at September 30, 2018. This amount primarily includes provisions for future fuel and energy purchases related to BTU's native load obligations and wholesale contract sales. Specific to the wholesale contracts, BTU has executed forward market power purchases with four different counterparties which have varying terms expiring from 2019, through 2022.

On April 9, 2018, BTU executed forward market power purchases for the years 2023 through 2027, to support BTU's projected baseload energy requirements over those respective years. BTU transacted with one counterparty for the total purchase of approximately 4,666,000 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.

On October 6, 2015, 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

**Bryan Texas Utilities  
City Electric System**

Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2018 and 2017

purchases 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). FRV owns and operates a photovoltaic solar power plant in Presidio County, Texas. Under the agreement, which extends from 2013 to 2037, BTU purchases the output from the 10MW facility.

13. Subsequent Events

On November 14, 2018, the materials management and inventory procurement contract between BTU and KBS Electric Distributors ceased and on November 15, 2018 a new contract for materials management and inventory procurement between BTU and Texas Electric Cooperative (TEC) went into effect. Under the contract with TEC, TEC purchased \$3.6 million of the existing BTU distribution inventory in January of FY19. BTU will purchase materials from TEC when issued for use in construction and system maintenance. Some minimal inventory will be carried on the BTU financials, representing mostly critical spare material and refurbished material that is available to be placed back into service.

During fiscal year 2018, BTU completed a cost-of-service and rate study. The study utilized a full test year of BTU's advanced meter infrastructure (AMI) data. As a result of the study, on October 1, 2018, customer class allocations were adjusted to more accurately reflect respective contributions to system costs. Overall, there were no changes to retail customers' base rates, but the Rural Electric System wholesale rate decreased by 38% to reflect capacity cost reductions from TMPA. BTU implemented minor changes to regulatory charges and fuel rates which were revenue neutral to the City System.

On October 8, 2018, BTU entered into a 15 year power purchase agreement with an energy developer that will construct a photovoltaic solar power plant in northeast Texas. Under the agreement, which has an expected commercial operation date of June 2022, BTU will purchase the output from 100MW of generating capacity.

On November 14, 2018, BTU executed forward market power purchases for the years 2023 through 2027, to support BTU's projected peak period energy requirements over those respective years. BTU transacted with one counterparty for the total purchase of approximately 440,785 MWh.

On November 29, 2018, the City of Bryan issued revenue bonds ("2018 Revenue Bonds") totaling \$40,590,000 for the City Electric System. The 2018 Revenue Bonds mature serially beginning July 1, 2020, through July 1, 2043, with coupon rates of 4.0% and 5.0%. The proceeds from the sale of the 2018 Revenue Bonds are restricted to financing costs or expenses incurred in relation to the acquisition or construction of improvements, additions, or extensions to the City Electric System and capital assets, facilities, and equipment incident and related to the operation, maintenance, or administration of the City Electric System.

**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	2018
Actuarially Determined Contribution	\$ 7,686,872	\$ 8,279,509	\$ 8,521,169	\$ 8,887,727
Contributions in relation to the actuarially determined contribution	7,686,872	8,279,509	8,521,169	8,887,727
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 48,991,679	\$ 54,614,239	\$ 55,894,466	\$ 58,312,792
Contributions as a percentage of covered payroll	15.69%	15.16%	15.25%	15.24%
BTU contributions in relation to the actuarially determined contribution	\$ 1,997,618	\$ 2,149,227	\$ 2,152,828	\$ 2,219,516
BTU Covered payroll	\$ 12,723,543	\$ 14,171,272	\$ 14,136,800	\$ 14,549,172
Contributions as a percentage of covered payroll	15.70%	15.17%	15.23%	15.26%

**Notes to Schedule of Contributions**

For the fiscal year ended September 30, 2018, included in the City of Bryan's contributions to TMRS of \$8,887,727, were \$2,219,516 in contributions from BTU. 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 four years of data are presented in accordance with GASB Standard No. 68 as the data for the years other than what is presented 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**

Actuarial Cost Method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining Amortization period	28 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 rates 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.



**Bryan Texas Utilities  
City Electric System**  
Required Supplementary Information - continued

**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	2017
<b>Total Pension Liability</b>				
Service Cost	\$ 7,088,933	\$ 7,796,505	\$ 8,498,467	\$ 8,991,102
Interest (on the Total Pension Liability)	18,281,849	19,160,943	19,655,455	20,795,590
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(1,764,543)	(1,545,768)	450,762	395,105
Change of assumptions	-	3,577,731	-	-
Benefit payments, including refunds of employee contributions	(11,117,789)	(11,685,311)	(12,067,133)	(11,853,082)
<b>Net Change in Total Pension Liability</b>	<b>12,488,450</b>	<b>17,304,100</b>	<b>16,537,551</b>	<b>18,328,715</b>
<b>Total Pension Liability - Beginning</b>	<b>263,183,703</b>	<b>275,672,153</b>	<b>292,976,253</b>	<b>309,513,804</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 275,672,153</b>	<b>\$ 292,976,253</b>	<b>\$ 309,513,804</b>	<b>\$ 327,842,519</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 7,667,195	\$ 7,727,068	\$ 8,035,947	\$ 8,656,073
Contributions - Employee	3,312,987	3,490,130	3,741,223	3,964,541
Net Investment Income	12,827,812	349,403	15,980,505	34,922,324
Benefit payments, including refunds of employee contributions	(11,117,789)	(11,685,311)	(12,067,133)	(11,853,082)
Administrative expense	(133,929)	(212,814)	(180,465)	(180,962)
Other	(11,011)	(10,511)	(9,723)	(9,171)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>12,545,265</b>	<b>(342,034)</b>	<b>15,500,354</b>	<b>35,499,723</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>224,239,250</b>	<b>236,784,515</b>	<b>236,442,481</b>	<b>251,942,835</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 236,784,515</b>	<b>\$ 236,442,481</b>	<b>\$ 251,942,835</b>	<b>\$ 287,442,558</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 38,887,638</b>	<b>\$ 56,533,772</b>	<b>\$ 57,570,969</b>	<b>\$ 40,399,961</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>85.89%</b>	<b>80.70%</b>	<b>81.40%</b>	<b>87.68%</b>
<b>Covered Payroll</b>	<b>\$ 47,328,382</b>	<b>\$ 49,849,779</b>	<b>\$ 53,382,332</b>	<b>\$ 56,512,266</b>
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>82.17%</b>	<b>113.41%</b>	<b>107.85%</b>	<b>71.49%</b>
<b>BTU Net Pension Liability - Ending</b>	<b>\$ 10,004,206</b>	<b>\$ 14,584,858</b>	<b>\$ 14,846,900</b>	<b>\$ 10,563,906</b>
<b>BTU Covered Payroll</b>	<b>\$ 12,191,818</b>	<b>\$ 12,969,411</b>	<b>\$ 13,762,330</b>	<b>\$ 14,228,102</b>
<b>BTU Net Pension Liability as a Percentage of Covered Payroll</b>	<b>82.06%</b>	<b>112.46%</b>	<b>107.88%</b>	<b>74.25%</b>

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

Only four years of data is presented in accordance with GASB Standard No. 68 as the data for the years other than what is presented 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 \$10,563,906 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, 2018.

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.

The ratio of the City Electric System contributions to TMRS as a percentage of City-wide contributions to TMRS was 26% for the years ended September 30, 2016 and September 30, 2015.

**Bryan Texas Utilities  
City Electric System**  
Required Supplementary Information - continued

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

Last Ten Fiscal Years (will ultimately be displayed)

	<u>2018</u>
Actuarially Determined Contribution	\$ 1,498,635
Actual Contributions	<u>1,471,374</u>
Contribution deficiency (excess)	\$ 27,261
Covered Employee Payroll	\$ 58,312,792
Actual Contribution as a % of Covered Employee Payroll	2.52%
BTU Actual Contributions	\$ 315,524
BTU Covered Employee Payroll	\$ 14,549,172
BTU Actual Contribution as a % of BTU Covered Employee Payroll	2.17%

**Notes to Schedule of Contributions**

Only one year of data are presented in accordance with GASB Standard No. 75 as the data for the years other than what is presented is not available. Additionally, GASB Standard No. 75 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	Individual Entry Age Normal
Amortization method	Level percentage of payroll
Remaining Amortization period	Closed, 30-years as of September 30, 2018
Asset Valuation Method	Market Value
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Payroll Growth	1.50%
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS).
Mortality	For healthy retirees, the gender-distinct RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates being multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Participation Rates	It was assumed that 65% of retirees who are eligible for the rule of 80 discount and 10% of those who are not eligible for the rule of 80 discount would choose to receive coverage through the City.
Health Care Cost Trend Rates	Initial rates of 7.50% declining to ultimate rates of 5.25% after 11 years; Ultimate trend rate includes a 1.00% adjustment for the excise tax.

**Bryan Texas Utilities  
City Electric System**  
Required Supplementary Information - continued

**City of Bryan Schedule of Changes in the City's Net OPEB Liability and Related Ratios in the City's Other Post Employment Benefits (OPEB)**

Last Ten Calendar Years (will ultimately be displayed)

	<u>2017</u>
<b>Total OPEB Liability</b>	
Service Cost	\$ 478,077
Interest (on the Total Opeb Liability)	1,021,963
Changes of benefit terms	-
Difference between expected and actual experience	-
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(983,981)
<b>Net Change in Total OPEB Liability</b>	<u>516,059</u>
<b>Total OPEB Liability - Beginning</b>	<u>15,975,467</u>
<b>Total OPEB Liability - Ending (a)</b>	<u><u>\$ 16,491,526</u></u>
 <b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 1,608,981
Contributions - Non-employer contributing entities	-
Contributions - Employee	-
Net Investment Income	17,311
Benefit payments	(983,981)
Plan administrative expense	(770)
Other	-
<b>Net Change in Plan Fiduciary Net Position</b>	<u>641,541</u>
<b>Plan Fiduciary Net Position - Beginning</b>	<u>-</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ 641,541</u></u>
 <b>Net OPEB Liability - Ending (a) - (b)</b>	 \$ 15,849,985
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	 3.89%
 <b>Covered Employee Payroll</b>	 \$ 56,523,781
 <b>Net OPEB Liability as a Percentage of Covered Employee Payroll</b>	 28.04%
 <b>Net BTU OPEB Liability - Ending</b>	 \$ 3,354,049
<b>BTU Covered Employee Payroll</b>	\$ 14,228,102
 <b>Net OPEB Liability as a Percentage of Covered Employee Payroll</b>	 23.57%

**Bryan Texas Utilities**  
**City Electric System**  
Required Supplementary Information - continued

Note to Schedule of Changes in the City's Net OPEB Liability and Related Ratios

Only one year of data is presented in accordance with GASB Standard No. 75 as the data for the years other than calendar years that are presented are not available. Additionally, GASB Standard No. 75 requires that the information on this schedule correspond with the period covered as of December 31, the measurement date of the City's net OPEB liability.

The net OPEB liability allocated to the City Electric System was \$3,354,049 which was determined by the ratio of full time equivalent employees of BTU as a percentage of full time equivalent employees at the City. The ratio was approximately 21% for the year ended September 30, 2018.