- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations.* This statement establishes accounting and financial reporting guidance related to government combinations and disposals of government operations. The term government combinations refer to a variety of transactions and may be mergers, acquisitions, or transfers of operations. This standard sets forth definitions of each of these transaction types and sets forth the specific accounting and reporting treatment to be given for each. The statement also provides accounting and reporting guidance for disposals of government operations that have been sold or transferred. There was no impact on the financial statements from implementation of this guidance. The City Electric System did not engage in any combination or disposal transactions during the fiscal year ended September 30, 2015, and no such transactions are currently contemplated.

The following guidance issued by GASB is effective for the fiscal year ended 2016, and is expected to be applicable to the City Electric System:

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

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

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

<u>Utility Revenues, Fuel Recovery, and Regulatory Recovery</u> - Customers are billed on the basis of monthly cycle billings. At year end, the City Electric System accrues estimated unbilled revenues for the period ended September 30. The difference between fuel revenue billed and fuel expense incurred is recorded as an addition or a reduction to fuel and purchased power expense, with a corresponding entry to accounts payable – over recovered fuel or accounts receivable – under recovered fuel, whichever is appropriate. At September 30, 2015 and 2014, the City Electric System reported a current liability – over recovered fuel of $2,173,575 and $5,577,990, respectively.

The difference between regulatory revenue billed and regulatory expense incurred is recorded as an addition or a reduction to transmission cost of service expense, with a corresponding entry to accounts payable – over recovered regulatory fee or accounts receivable – under recovered regulatory fee, whichever is appropriate. At September 30, 2015 and 2014, the City Electric System reported a current asset – under recovered regulatory fee of $1,200,665 and $1,133,439, respectively.

Prepaid Energy Costs - The Texas Municipal Power Agency's ("TMPA") rates for the purchase of electricity billed to the City Electric System are designed to cover TMPA's annual system costs including debt service costs. As further discussed in Note 10 – Texas Municipal Power Agency, during the fiscal year ended September 30, 2010, the City Electric System, along with other TMPA member cities, issued debt in their own names to refund a portion of TMPA debt and to finance certain capital improvements of TMPA. Such amounts have been accounted for as a prepayment of future energy costs on the Statements of Net Position and are amortized through 2019, the life of the associated debt. Additionally, as discussed in Note 12 – Commitments and Contingencies, in 2007, BTU entered into a purchase power agreement with a subsidiary of Shell Energy North America (U.S.), L.P. As a part of the agreement, BTU prepaid $14,000,000 of generation capacity costs. The prepayment is being amortized over the life of the agreement which extends through December 31, 2017. The amortization of prepaid energy costs is reported on the Statements of Revenues, Expenses and Changes in Net Position in depreciation and amortization and totaled $8,300,717 for each of the fiscal years ended September 30, 2015 and 2014.

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

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

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

Bond Issuance Expenses – According to the financial reporting requirements of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, bond issuance expenses are to be expensed as incurred. Issuance expenses are reported on the Statements of Revenues, Expenses and Changes in Net Position in interest expense and totaled $44,691 and $141,088 for the fiscal years ended September 30, 2015 and 2014, respectively.

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

Deferred Regulatory Liability – To better align certain benefits received with BTU's retail rate design, the City Electric System utilizes regulatory accounting treatment for the funds it collects from customers and developers as contributions of aid in construction (AIC) under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. 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 depreciation expense over the life of the asset constructed. During the fiscal years ended September 30, 2015 and 2014, the City Electric System collected $320,599 and $207,445, respectively, of AIC.

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

Special Items - Special items are those transactions or events within the control of management that are either unusual in nature or infrequent in occurrence. On January 12, 2015, BTU entered a contract with KSH Services, LLC (KSH) for the sale and removal of power plant equipment from the Atkins generation facility. KSH paid BTU $505,000 in consideration for the equipment which was fully depreciated on the City Electric System's Statement of Net Position. Reflected in the Statements of Revenues, Expenses, and Changes in Net Position is a gain on the transaction totaling $505,000.

On April 8, 2014, BTU sold 1.5 million gallons of fuel oil from the Dansby generation facility. For the fiscal year ended September 30, 2014, the City Electric System reported a one-time special item gain of $2,493,174, which represented the sale proceeds from the transaction, less the carrying cost of the fuel.

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

2. Cash and Investments

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

Deposits

State statutes require that all deposits in financial institutions be fully collateralized with depository insurance or by U.S. Government obligations or its agencies and instrumentalities; or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. City Electric System demand deposits for the fiscal years ended September 30, 2015 and 2014 were held at Branch Banking & Trust Company. These deposits were entirely covered by federal depository insurance or by collateral equal to at least 105% of the deposits. For deposits that were collateralized, the securities were in accordance with the Texas Public Funds Collateral Act.

Investments

The BTU investment program is guided by Texas state statutes, by various City ordinances, and by City of Bryan investment policy which amplifies those guidelines and prescribes how the City Electric System will operate its investment program in accordance with applicable laws and regulations.

The City's policy, which was adopted on August 26, 2014 for the fiscal year ending September 30, 2015, sets forth (1) the basic principles governing the investment of funds; (2) the objectives of the investment program; and (3) the authority, responsibilities, limitations, documentation, and requirements to be used in the administration and operation of the investment program.

Investments authorized by the investment policy are those approved by the revised State of Texas Public Funds Investment Act, Chapter 2256. These investments include the following:

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

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

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

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

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

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

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 1Texas;

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, 2015 and 2014 is summarized as follows:

	FY2015	FY2014
Demand deposits	$ 48,809,798	$ 69,426,885
Investment in government pool	3,008,940	3,007,043
Collateral deposits with counterparty	6,679,019	1,679,019
Investments in agency securities	25,310,096	19,069,105
Total	$ 83,807,853	$ 93,182,052

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

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

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

		Investment Maturity (in Years)		
Investment Types	**Fair Value**	**Less Than 1**	**1 - 5**	**Greater Than 5**
Investments in agency securities	$ 25,310,096	$ -	$ 25,310,096	$ -
Investment in government pool	3,008,940	3,008,940	-	-
Collateral deposits with counterparties	6,679,019	6,679,019	-	-
Total fair value	$ 34,998,055	$ 9,687,959	$ 25,310,096	$ -

The City Electric System's investment in government pool includes deposits in TexSTAR. "TexSTAR" is a local government investment pool created and jointly managed by First Southwest Asset Management, Inc. and JPMorgan Chase Bank to invest funds on behalf of Texas political subdivisions. TexSTAR operates on a $1.00 net asset value basis and allows same day or next day redemptions and deposits. Interest is allocated daily based on portfolio earnings and participant account balances. The City Electric System's investment in TexSTAR is stated at amortized cost, which approximates fair value. The fair value of the City Electric System's investment is the same as the value of the pool shares. This pool is not managed by the City Electric System and the City Electric System does not possess securities that exist in either physical or book entry form. The investment in TexSTAR is rated AAAm by Standard and Poors.

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

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

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

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

Restricted Cash and Investments

In 2015, cash and investments of $83.8 million exceeded amounts required to be restricted by $47.2 million. In 2014, cash and investments of $93.2 million exceeded amounts required to be restricted by $43.8 million. The City Electric System did not transfer rate stabilization funds to unrestricted assets in 2015 or 2014.

Amounts required to be restricted at September 30, 2015 and 2014 are as follows:

	FY2015	**FY2014**
Rate stabilization fund	$ 1,687,392	$ 1,683,888
Debt reserve	10,552,883	11,558,189
Debt service	5,351,474	5,433,170
Bond funds for construction	6,103,841	19,450,737
Over-recovered fuel expense	2,173,575	5,577,990
Customer deposits	4,094,526	3,972,584
Collateral deposits	6,679,019	1,679,019
Restricted cash and investments	$ 36,642,710	$ 49,355,577

3. Capital Assets

General Description – At September 30, 2015, production plant included Dansby and Atkins power plants located in Brazos County, which are solely owned and operated by BTU. In total, BTU production plants include four gas-fired generating units representing 226 megawatts of available generating capacity. Four of the oldest Atkins power plant units representing 111 megawatts of capacity were retired during the fiscal year ended September 30, 2014. Other assets reflected in total capital assets include transmission, distribution and general plant facilities.

Impairments – BTU annually evaluates capital assets as required by GASB Statement No. 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* The statement provides guidance for determining if any assets have been impaired and for calculating the appropriate write-downs in value for any assets found to be impaired. An internal company-wide review of capital assets, in accordance with GASB Statement No. 42, concluded that the City Electric System had no impaired capital assets at September 30, 2015.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 6,021,381	$ -	$ -	$ 6,021,381
Construction in Progress	31,097,335	18,392,650	40,486,269	9,003,716
Total capital assets, not being depreciated	37,118,716	18,392,650	40,486,269	15,025,097
Capital assets, being depreciated:				
Production Plant	104,328,537	78,250	-	104,406,787
Transmission Plant	127,405,032	31,684,730	463,211	158,626,551
Distribution Plant	122,181,983	5,409,462	127,313	127,464,132
General Plant (including QSE)	23,294,780	2,533,866	4,123,002	21,705,644
Total capital assets, being depreciated	377,210,332	39,706,308	4,713,526	412,203,114
Less accumulated depreciation for:				
Production Plant	46,023,334	2,259,691	-	48,283,025
Transmission Plant	28,213,535	4,509,238	463,211	32,259,562
Distribution Plant	48,392,062	3,918,123	745,107	51,565,078
General Plant (including QSE)	15,383,524	1,346,175	4,123,002	12,606,697
Total accumulated depreciation	138,012,455	12,033,227	5,331,320	144,714,362
Total capital assets, being depreciated, net	239,197,877	27,673,081	(617,794)	267,488,752
Total capital assets, net	$ 276,316,593	$ 46,065,731	$ 39,868,475	$ 282,513,849

Depreciation and amortization totals $20.3 million and $20.0 million, for the fiscal years ended September 30, 2015 and 2014, respectively, which includes $8.3 million in both fiscal years related to amortization of prepaid energy.

4. Long-Term Debt

For the fiscal year ended September 30, 2015, the City of Bryan issued general obligation refunding bonds dated July 28, 2015 ("2015 Refunding Bonds") totaling $7,735,000 for the City Electric System. The 2015 Refunding Bonds mature serially beginning August 15, 2016 through August 15, 2025, with coupon rates ranging from 2.00% to 4.00%. The proceeds from the sale of the 2015 Refunding Bonds are restricted to refunding portions of the City Electric System's outstanding debt and thus lowering its overall debt service requirements. Proceeds from the sale of the bonds were used to refund $7,980,000 of the Series 2005 revenue bonds. The refunding represented a deferred loss of $53,630, debt service savings of $1,000,290, and a net present value benefit savings of $909,343. The City Electric System deemed the deferred loss of $53,630 as immaterial and reported it as interest expense in the Statements of Revenues, Expenses, and Changes in Net Position.

During the fiscal year ended September 30, 2014, the City of Bryan issued certificates of obligation dated May 15, 2014 ("2014 Certificates") totaling $34,855,000 for the City Electric System. The 2014 Certificates mature serially on August 15, 2015 through August 15, 2039, with coupon rates ranging from 2.00% to 5.00%. The proceeds from the sale of the 2014 Certificates are restricted to the acquisition and construction of improvements, additions, and extensions of transmission and distribution facilities.

The City Electric System recognized a gain on refunded debt related to the issuance of the Series 2012 Bonds in the deferred inflows section in the Statements of Net Position. The gain is amortized over 3.5 years, which is the weighted average life of the old refunded debt. At September 30, 2015 and 2014, the unamortized gain on refunded debt was $0 and $191,814, respectively.

In the fiscal year-ended 2015 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, 2015, the City Electric System had outstanding revenue bonds totaling $15,670,000 which were considered defeased.

Bryan Texas Utilities
City Electric System
Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2015 and 2014

Changes to long term debt during fiscal year 2015, including current portion are as follows:

	Interest Rates (%)	Series Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Revenue Bonds:							
Series 2005	4.000 - 4.500	2025	$ 8,615,000	$ -	$ 8,615,000	$ -	$ -
Series 2006	4.000 - 5.000	2031	9,690,000	-	395,000	9,295,000	415,000
Series 2007	4.500 - 5.250	2032	26,620,000	-	955,000	25,665,000	1,000,000
Series 2008	4.000 - 5.250	2033	27,865,000	-	925,000	26,940,000	960,000
Series 2009	4.000 – 5.000	2034	21,730,000	-	705,000	21,025,000	735,000
Series 2010	5.000	2019	30,210,000	-	3,445,000	26,765,000	3,380,000
Series 2012	3.125 - 5.000	2037	56,750,000	-	4,670,000	52,080,000	5,015,000
Total Revenue Bonds			181,480,000	-	19,710,000	161,770,000	11,505,000
Certificates of Obligation:							
Series 2014	2.000 – 5.000	2039	34,855,000	-	830,000	34,025,000	1,005,000
Total Certificates of Obligation			34,855,000	-	830,000	34,025,000	1,005,000
General Obligation Bonds							
Series 2015	2.000 – 4.000	2025	-	7,735,000	-	7,735,000	730,000
Total General Obligation Bonds			-	7,735,000	-	7,735,000	730,000
Total long-term debt			$216,335,000	$ 7,735,000	$ 20,540,000	$203,530,000	$ 13,240,000

All net revenues of the City Electric System are pledged for the payment of debt service of the revenue bonds. Net revenues, as defined by the bond resolution include all of the revenues and expenses of the City Electric System other than certain interest income and expense and depreciation and amortization. The bond resolutions further require that the net revenues, as defined, equal at least 1.10 times the average annual debt service on all revenue bonds. The City Electric System is in compliance with these requirements at September 30, 2015 and 2014.

Under the terms of the revenue bond covenants, City Electric System is required to maintain minimum reserve fund requirements equal to approximately one year of revenue bond debt service requirements. The reserve fund requirements may be satisfied by cash, a letter of credit or an insurance policy. The reserve fund requirements for the Series 2008, 2009, 2010, and 2012 Bonds are satisfied with restricted funds which are reported on the City Electric System's Statements of Net Position as debt reserve. The reserve fund requirements for the Series 2006 and Series 2007 Bonds are satisfied with insurance policies. There are no reserve fund requirements for the 2014 Certificates or 2015 Refunding Bonds.

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

Revenue Bonds

Year Ending September 30	Principal	Interest	Total
2016	$ 11,505,000	$ 7,623,494	$ 19,128,494
2017	10,785,000	7,119,494	17,904,494
2018	6,205,000	6,587,894	12,792,894
2019	27,035,000	6,325,906	33,360,906
2020	5,840,000	5,016,781	10,856,781
2021-2025	30,480,000	20,869,625	51,349,625
2026-2030	36,105,000	13,277,600	49,382,600
2031-2035	28,635,000	4,286,769	32,921,769
2036-2037	5,180,000	322,575	5,502,575
Total	$ 161,770,000	$ 71,430,138	$ 233,200,138

Certificates of Obligation

Year Ending September 30	Principal	Interest	Total
2016	$ 1,005,000	$ 1,102,741	$ 2,107,741
2017	1,025,000	1,082,641	2,107,641
2018	1,045,000	1,062,141	2,107,141
2019	1,070,000	1,041,241	2,111,241
2020	1,090,000	1,019,841	2,109,841
2021-2025	5,925,000	4,622,106	10,547,106
2026-2030	6,975,000	3,567,411	10,542,411
2031-2035	8,200,000	2,343,899	10,543,899
2036-2039	7,690,000	740,145	8,430,145
Total	$ 34,025,000	$ 16,582,166	$ 50,607,166

General Obligation Bonds

Year Ending September 30	Principal	Interest	Total
2016	$ 730,000	$ 209,830	$ 939,830
2017	730,000	201,225	931,225
2018	750,000	186,625	936,625
2019	725,000	167,875	892,875
2020	740,000	153,375	893,375
2021-2025	4,060,000	382,075	4,442,075
Total	$ 7,735,000	$ 1,301,005	$ 9,036,005

Total Debt

Year Ending September 30	Principal	Interest	Total
2016	$ 13,240,000	$ 8,936,065	$ 22,176,065
2017	12,540,000	8,403,360	20,943,360
2018	8,000,000	7,836,660	15,836,660
2019	28,830,000	7,535,023	36,365,023
2020	7,670,000	6,189,998	13,859,998
2021-2025	40,465,000	25,873,806	66,338,806
2026-2030	43,080,000	16,845,011	59,925,011
2031-2035	36,835,000	6,630,668	43,465,668
2036-2039	12,870,000	1,062,720	13,932,720
Total	$ 203,530,000	$ 89,313,311	$ 292,843,311

In the Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended September 30, 2015 and 2014, interest expense is recorded in the amount of $8,761,732 and $8,486,837, 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 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com. All eligible employees of the City are required to participate in TMRS.

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's accumulated 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.

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

Employees Covered by Benefit Terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or benificiaries currently receiving benefits	515
Inactive employees entitled to but not yet receiving benefits	388
Active employees	824
Total	1,727

Bryan Texas Utilities
City Electric System
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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 of Bryan were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Bryan were 16.20% and 15.50% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015 were $7,686,872, of which $1,997,618 represented contributions from BTU, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, 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 male rates 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. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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:

	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. 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.

Bryan Texas Utilities
City Electric System
Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2015 and 2014

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2013	$ 263,183,703	$ 224,239,250	$ 38,944,453
Changes for the year:			
Service cost	7,088,933	-	7,088,933
Interest	18,281,849	-	18,281,849
Change of benefit terms	-	-	-
Difference between expected and actual experience	(1,764,543)	-	(1,764,543)
Changes of assumptions	-	-	-
Contributions - employer	-	7,667,195	(7,667,195)
Contributions - employee	-	3,312,987	(3,312,987)
Net investment income	-	12,827,812	(12,827,812)
Benefit payments, including refunds of employee contributions	(11,117,789)	(11,117,789)	-
Administrative expense	-	(133,929)	133,929
Other changes	-	(11,011)	11,011
Net changes	12,488,450	12,545,265	(56,518)
Balance at 12/31/2014	**$ 275,672,153**	**$ 236,784,515**	**$ 38,887,638**
Balance at 12/31/2014 - BTU City Electric System			**$ 10,004,206**

The portion of the net pension liability, deferred inflows, deferred outflows, and pension expense allocated to the City Electric System was determined by the ratio of the City Electric System contributions to TMRS as a percentage of City-wide contributions to TMRS. The ratio was approximately 26% for the year ended September 30, 2015.

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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City Electric System's net pension liability	$ 20,561,433	$ 10,004,206	$ 1,402,139

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows/Inflows of Resources related to Pensions

For the fiscal year ended September 30, 2015, the City Electric System recognized pension expense of $1,727,242.

At September 30, 2015 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	$0	$360,341
Changes in actuarial assumptions	$0	$0
Difference between projected and actual investment earnings	$596,450	$0
Contributions subsequent to the measurement date	$1,437,330	$0
Total	**$2,033,780**	**$360,341**

The City Electric System reported $1,437,330 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ended September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ended December 31
2016	$ 47,222
2017	47,222
2018	47,222
2019	94,443
2020	-
Thereafter	-
Total	$ 236,109

Prior Period Reporting

BTU's pension accounting for the fiscal years ended September 30, 2015 and 2014, is not comparable due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68.* For the fiscal year ended September 30, 2015, BTU was required to report the difference between the actuarial total pension liability and the pension plan's fiduciary net position as the net pension liability on the statement of net position. For the fiscal year ended September 30, 2014, a liability was recognized only to the extent that contributions made to the plan were exceeded by the actuarially calculated contributions.

The annual pension cost and net pension obligation/(asset) as of September 30, 2014 were as follows:

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

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

City historical data is as follows:

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

The funded status as of December 31, 2013, the prior actuarial valuation date, were as follows:

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

6. Other Post-Employment Benefits

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

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

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

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

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

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

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

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

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

In the year ended September 30, 2015, retirees paid $626,963 in premiums and $1,329,277 in claims were paid for post-retirement health care and administrative charges. As of September 30, 2015, the City has 35 retirees, 39 retirees and spouses, 7 retirees and families and 4 retirees and child(ren) participating in the health plan, out of the 403 employees eligible to participate upon retirement. Expenses are recognized as retirees submit claims.

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

Expenses are recognized as claims when submitted. COBRA participants are reimbursed at the same levels as active employees. Participants paid premiums of $9,143 and incurred claims and administrative expenses of $20,649 in the year ended September 30, 2015. As of September 30, 2015 the City has 2 COBRA participants.

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

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

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

Funding Policy and Annual OPEB Cost

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City had its most recent OPEB valuation performed as of December 31, 2013, as required by GASB 45.

Annual OPEB costs for the fiscal year ending September 30, 2015, and prior two fiscal years ended are as follows:

	FY2015	FY2014	FY2013
Annual required contribution (ARC)	$ 900,753	$ 874,517	$ 975,990
Interest on OPEB obligation	126,299	96,503	73,122
Adjustment to ARC	(117,015)	(89,409)	(44,631)
Annual OPEB cost	910,037	881,611	1,004,481
Contributions made	(702,316)	(219,480)	(484,903)
Increase in net OPEB obligation	$ 207,721	$ 662,131	$ 519,578
Net OPEB obligation, beginning of year	2,806,642	2,144,511	1,624,933
Net OPEB obligation, end of year	$ 3,014,363	$ 2,806,642	$ 2,144,511
Net OPEB obligation, end of year – City Electric System	$ 572,543	$ 527,922	$ 408,370

The portion of the net OPEB obligation allocated to the City Electric System is determined by the ratio of the City Electric System employees as a percentage of City-wide employees. That ratio was 19.0% for the year ended September 30, 2015.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year ending September 30, 2015 and the preceding two fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation	City Electric System OPEB Obligation
2013	$ 1,004,481	$ 484,903	48.3%	$ 2,144,511	$ 408,370
2014	881,611	219,480	24.9%	2,806,642	527,922
2015	910,037	702,316	77.2%	3,014,363	572,543

Funding status and funding progress

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

	FY2015	FY2014	FY2013
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)	10,704,428	10,704,428	11,860,133
Unfunded AAL (UAAL)	(10,704,428)	(10,704,428)	(11,860,133)
Funded Ratio	0%	0%	0%
Covered Payroll	$ 48,991,679	$ 46,907,165	$ 46,141,173
UAAL as a % of Covered Payroll	22%	23%	26%

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

Actuarial Methods and Assumptions

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

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

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

7. Risk Management

The City Electric System is covered for risk of losses related to general liability and workers' compensation through the City's risk management program. The City has established an "Insurance Fund" whereby the costs of providing claims servicing and claims payment are funded by charging a "premium" based upon a percentage of estimated current year payroll and management's estimate of projected current costs. For the years ended September 30, 2015 and 2014, the City Electric System paid the City $476,024 and $443,271, 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, 2015, and determined the derivatives to be effective in substantially offsetting the changes in cash flows of the hedgeable items. BTU's hedgeable items are expected HSC natural gas purchases to serve budgeted load. BTU projects total natural gas needs as part of a 10-year forecast. This forecast is the basis for the procurement amount of the hedgeable item. BTU's potential hedging derivatives are NYMEX and HSC indexed commodity swaps. 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 2015. The correlation coefficient of (0.8462) exceeds the minimum standard established by GASB 53 and indicates a strong linear relationship between the NYMEX and HSC prices. The calculated R^2 value of 0.9564 indicates that the changes in cash flows of the hedge substantially offset the changes in cash flows of the hedgeable item. The City Electric System also utilizes HSC indexed gas commodity swaps to hedge its open exposure after a NYMEX-based swap contract month settles. The City Electric System entered into Platts Gas Daily daily swaps to hedge this exposure. These HSC indexed swaps are hedging the physical purchases of natural gas also based on the HSC index and are effective cash flow hedges under the consistent critical terms method as defined by GASB 53. The swap is for the purchase of virtually the same quantity of the hedgeable item, has zero fair value at inception, and the reference rate of the swap and the hedgeable item are the same (HSC index).

For the fiscal years ended September 30, 2015 and 2014, the total fair value of outstanding hedging derivative instruments was a net liability of $17,801,026 and $16,717,295, 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 $6,009,018 and $5,759,986 at September 30, 2015 and 2014, 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 $11,792,008 and $10,957,309 at September 30, 2015 and 2014, 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, 2015, the fair value of the City Electric System's hedging derivative instruments - NYMEX-based commodity swaps - decreased by $1,083,731; which is reported in the Statements of Net Position as an increase of deferred outflows of resources. The deferred outflows are reported until respective contract expirations occur in conjunction with hedged expected physical fuel purchases. When fuel purchase transactions occur, the deferred balance associated with the expired fuel hedging contract is recorded as an adjustment to fuel expense. At September 30, 2015 and 2014, the deferred outflows of resources related to hedging derivatives were $17,801,026 and $16,717,295, 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, 2015:

Type	Terms	Volume Hedged (MMBTu)	Effective Dates	Maturity Dates	Reference Index	Fair Value
Commodity Swaps	BTU pays prices of $3.072 - 6.49	5,678,000	Oct 2015 - Dec 2018	Oct 2015 - Dec 2018	NYMEX	$(17,801,026)
		5,678,000				$(17,801,026)

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

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

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

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

Basis Risk - BTU is exposed to basis risk because the expected gas purchases being hedged will settle based on a pricing point (HSC) different than the pricing point of the hedge transactions (NYMEX). For September 2015, prompt month prices were $2.638/MMBtu and $2.614/MMBtu, for NYMEX and HSC, respectively.

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

9. Employee Benefits

The City Electric System is an integral part of the City, and as such, provides employee health benefits for all its full-time employees through the City health benefit plan. Separate information regarding BTU is not available. The following covers the City's health benefit plan as a whole.

The City established the Employee Benefits Trust Fund effective October 1, 1986, covering health benefits for eligible employees. At that time, the Council approved a formal trust agreement establishing the Fund. Employee premium costs are shared by the City and the employee, while dependent coverage is paid by the employee. The City's contract with its third party administrator and reinsurer sets an individual stop loss deductible in the amount of $150,000 and a maximum aggregate stop loss deductible of $6,788,366 for the twelve month period which began January 1, 2015 and ends December 31, 2015. These stop loss levels apply to medical coverage only. Prescription drug and dental coverage is not included. There were no significant reductions in insurance coverage in the current year from coverage in the prior year, nor have there been any settlements that have exceeded insurance coverage for each of the past three calendar years. However, the City has paid out $178,272 for calendar year 2013, $116,383 for calendar year 2014, and $282,458 for calendar year 2015 to date in settlements that exceed insurance coverage applicable to individual stop loss coverage.

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

	FY2015	FY2014
Beginning balance unpaid claims	$ 859,163	$ 1,010,988
Incurred claims	8,047,486	6,667,978
Claim payments	(7,910,931)	(6,819,803)
Ending balance unpaid claims	$ 995,718	$ 859,163
Amounts due in one year	$ 995,718	$ 859,163

10. Texas Municipal Power Agency

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

In September 1976, TMPA entered into identical Power Sales Contracts (the "Contract") with each of the Cities for the purpose of obtaining the economic advantages of jointly financing, constructing and operating large electric generating units and related facilities to supply the Cities' future energy needs. Under the Contract, the Cities are required to pay, for the benefits received or to be received by them from such activities, an amount sufficient to recover TMPA's operating and maintenance expenses and the Bond Fund, Reserve Fund and Contingency Fund requirements of the Revenue Bond Resolutions. In addition, the Cities are obligated to guarantee the payment of TMPA's bonds and commercial paper. At September 30, 2015, BTU's portion of outstanding TMPA bonds and commercial paper was approximately $119.9 million and $18.7 million, respectively.

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

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

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

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

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

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

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

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

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

Under the current debt structure, all generation debt will be paid off by September 1, 2018, causing the Power Sales Contract to expire on that same date. Thereafter, all remaining debt will be transmission debt, payable solely from transmission system revenues. On June 19, 2015, with support from TMPA, as well as TMPA Member Cities, Texas Senate Bill 776 was signed into law, providing a pathway for the future dissolution of TMPA and addressing the unbundling of generation and transmission businesses and the authority of TMPA and the cities to sell electric facilities. Previous legislation was silent on these matters. Under the current Power Sales Contract, a member city must give notice by September 30, 2016, if it wants to continue as a member of TMPA after September 1, 2018. No member cities have committed as of the report date. TMPA and the Cities are developing a plan in relation to the ownership, operational, and contractual issues associated with TMPA following September 1, 2018.

During the years ended September 30, 2015 and 2014 the City Electric System paid TMPA $49,561,344 and $48,665,513, respectively for power purchases and related activity under the contract. As of September 30, 2015 and 2014 the City Electric System had payables to TMPA amounting to $1,189,070 and $1,765,301, respectively.

The TMPA's Comprehensive Annual Financial Report for the year ended September 30, 2015 reported the following:

	FY2015
Total Assets	$ 826,228,000
Total Deferred Outflows of Resources	9,471,000
Total Liabilities	801,623,000
Total Deferred Inflows of Resources	-
Total Net Position	34,076,000
Change in Net Position for year ended September 30, 2015	$ (6,867,000)

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

11. Related Party Transactions

BTU operates the Rural Electric System which provides electric service to the immediate rural area outside the City of Bryan, extending to most of Brazos County, adjacent to and including portions of the City of College Station, and parts of Burleson, and Robertson counties in a radius of nearly 20 miles from the City of Bryan. BTU's Rural Electric System purchases all of its energy from the City Electric System. BTU's common staff is employed by the City Electric System and is either direct billed to the Rural Electric System or is billed through the City Electric System's purchased power rates. Generally, all power supply, customer service, administrative services, and regulatory fees are billed through purchased power and regulatory charge rates, while distribution services are direct billed. Rural purchased power and regulatory charge rates are established through City ordinance. Fuel rates are adjusted monthly to reflect actual cost. For the fiscal years ended September 30, 2015 and 2014, the Rural Electric System's purchased power, fuel, and regulatory charges were the following:

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

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

In addition to the $11,411,380 and $10,598,712 transferred to the City of Bryan for right of way in 2015 and 2014, respectively, the City Electric System paid the City of Bryan $881,813 and $774,208 for administrative functions performed by city personnel in 2015 and 2014, respectively. These amounts are included in the other expenses in the accompanying financial statements.

The City of Bryan transferred to City Electric System $1,529,782 and $1,331,857 in 2015 and 2014, respectively, for billing services performed by the City Electric System for water, wastewater and solid waste services.

12. Commitments and Contingencies

BTU purchase and construction commitments approximate $282.6 million at September 30, 2015. This amount primarily includes provisions for future fuel and energy purchases.

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

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

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

On November 16, 2007, BTU entered into a 10 year purchased power agreement with a subsidiary of Shell Energy North America (U.S.), L.P. The agreement, which extends from January 1, 2008 to December 31, 2017, allows BTU to schedule up to 50MW of energy on a day-ahead basis. Under the agreement, BTU must make specified minimum monthly non-fuel payments which are included in the $282.6 million of purchase and construction commitments.

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

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

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 year-ended 2015, the City System incurred $1,341,266 in expenses to reinforce the dam, which is reported as maintenance expense in the Statement of Revenues, Expenses, and Changes in Net Position. Efforts to strengthen the dam will continue into fiscal year 2016, and total expenditures for the City System could exceed $3,000,000.

13. Subsequent Events

On October 1, 2015, BTU implemented phase two of a three phase electric rate adjustment for the City Electric System which includes City of Bryan retail customers and the Rural Electric System wholesale rate. After the third phase, to be effective on October 1, 2016, base rates would have increased 2.4% over the prior three years.

On October 1, 2015, the City Electric System increased the Power Supply Adjustment (PSA) component of its rates for retail customers. The PSA is used to recover fuel costs, net purchased power costs, and adjustments for the over or under recovery for such costs from preceding periods. The City Electric System increased the PSA $0.0025/kWh (an average of 8.5%) for retail customers to eliminate projected under recovery of fuel and purchased power costs.

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

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

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
Actuarially Determined Contribution	$ 7,686,872
Contributions in relation to the acctuarially determined contribution	7,686,872
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 48,991,679
Contributions as a percentage of employee covered payroll	15.69%

Notes to Schedule of Contributions

For the fiscal year ended September 30, 2015, included in the City of Bryan's contributions to TMRS of $7,686,872, were $1,997,618 in contributions from BTU.

Only one year of data is presented in accordance with GASB Standard No. 68 as the data for the years other than 2015 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 current fiscal year end of Septermber 30, 2015.

Methods and Assumptions Used to Determine the Contribution Ratio

Acutarial Cost Method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining Amortization period	24 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.5% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009
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 benefit changes this year.

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
Total Pension Liability	
Service Cost	$ 7,088,933
Interest (on the Total Pension Liability)	18,281,849
Changes of benefit terms	-
Difference between expected and actual experience	(1,764,543)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(11,117,789)
Net Change in Total Pension Liability	12,488,450
Total Pension Liability - Beginning	263,183,703
Total Pension Liability - Ending (a)	$ 275,672,153
Plan Fiduciary Net Position	
Contributions - Employer	$ 7,667,195
Contributions - Employee	3,312,987
Net Investment Income	12,827,812
Benefit payments, including refunds of employee contributions	(11,117,789)
Administrative expense	(133,929)
Other	(11,011)
Net Change in Plan Fiduciary Net Position	12,545,265
Plan Fiduciary Net Position - Beginning	224,239,250
Plan Fiduciary Net Position - Ending (b)	$ 236,784,515
Net Pension Liability - Ending (a) - (b)	$ 38,887,638
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.89%
Covered Employee Payroll	$ 47,328,382
Net Pension Liability as a Percentage of Covered Payroll	82.17%

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

Only one year of data is presented in accordance with GASB Standard No. 68 as the data for the years other than 2015 is not available. Additionally, GASB Standard No. 68 requires that the information on this schedule correspond with the period covered as of the year ended December 31, 2014, the current measurement date.

The net pension liability allocated to the City Electric System was $10,004,206, 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, 2015.