with other transmission system additions since January 1, 2015, were approved for recovery through the Texas Public Utility Commission's Transmission Cost of Service Rates on April 24, 2018.

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 summer 2018. 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 was amortized through FY 2019, the life of the associated debt. The balance of the impaired Regulatory Asset was $5.2 million at September 30, 2018, and was fully amortized at September 30, 2019. The remaining unimpaired $2.6 million Prepaid Energy Costs associated with TMPA was fully amortized at September 30, 2018.

On June 6, 2019 the TMPA Board of Directors approved the cessation of the production of power and energy from the Gibbons Creek power plant. The unit was removed from the ERCOT system on October 30, 2019. These actions triggered the TMPA to record a decommissioning/environmental remediation liability and a corresponding discounted receivable from the member cities. The member cities are obligated to pay all costs associated with the decommissioning of the generating assets of TMPA. As of September 30, 2019 the calculated liability associated with decommissioning/environmental remediation was $126,443,000 of which each member city is responsible for its share. Decommissioning is estimated to take 5 years and the related maintenance is estimated to be fully complete after 30 years. The City Electric System's allocated share of TMPA's decommissioning/remediation liability is 21.24%. At September 30, 2019 the City Electric System recognized a Regulatory Asset in the amount of $26,856,688. Of this amount, $18,573,088 is associated with the decommissioning obligation and $8,283,600 is associated with the ongoing maintenance. Because of the nature of the obligation, a liability for the City Electric System was recognized at September 30, 2019. The Regulatory Asset will be amortized in future periods when its costs are included in electric rates. See Note 11 below for further information regarding the obligation due to TMPA.

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 for the fiscal year ended September 30, 2018.

Other –

BTU experienced a summer peak load of 339.9MW on August 19, 2019. This was just below BTU's all-time high summer peak load of 340.6MW realized on July 23, 2018. BTU experienced a winter peak load of 253.7MW on January 24, 2019, which was significantly lower than 2018's winter peak load of 320.1MW which was an all-time high winter peak.

On July 23, 2018, BTU experienced an all-time high summer peak load of 340.6MW. This was significantly higher than previous BTU all-time high summer peak load of 322MW experienced in

fiscal year 2017. BTU experienced an all-time high winter peak load of 320.1MW on January 17, 2018, which was higher than the fiscal year 2017 winter peak load of 266.7MW.
The City Electric System did not transfer any amounts from the Rate Stabilization Fund for the fiscal years ended September 30, 2019 or 2018.

On May 14, 2019 the Bryan City Council authorized the annexation of approximately 3,802 acres of land located west of Bryan, including the Texas A&M University System RELLIS Campus. In addition to this area, the Bryan City Council authorized the annexation of approximately 1,217 acres of land generally located north of Bryan and including the Texas Triangle Park Inland Port. These annexations resulted in the purchase of electric system assets by the City Electric System from the Rural Electric System with a gross asset value of $1,185,999 and accumulated depreciation of $766,638, for a net book value of $419,361. These assets include poles, wires, and other distribution assets. The annexations resulted in 133 customers transferring from the Rural Electric System to the City Electric System.

Subsequent Events –

On January 1, 2020, BTU implemented retail rate changes to its power supply adjustment and regulatory charges. The City Electric System power supply adjustment decreased by 8.5% due to lower net energy costs. The City Electric System's regulatory charges, including those billed to the Rural Electric System, increased by 15% due to increases in ERCOT system-wide transmission cost of service expenses. The overall effect of these changes will reduce retail rates by 0.8%, on average.

Requests for Information

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

BTU General Manager:
Gary Miller

BTU Executive Directors:
Randy Trimble
David Werley
Wes Williams

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

Bryan Texas Utilities
City Electric System
An Enterprise Fund of the City of Bryan
Statements of Net Position
At September 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 6,310,258	$ 11,160,014
Investments	75,853,416	61,548,054
Accounts receivable	21,422,088	16,964,416
Less allowance for uncollectible accounts	(376,655)	(401,506)
Accrued interest receivable	212,841	432,837
Inventory	1,238,721	5,237,663
Due from other funds	3,438,992	7,900,138
Under-recovered regulatory fee	523,068	-
Other assets	1,632,196	1,027,027
Total current assets	110,254,925	103,868,643
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	554,036	554,036
Investments	85,845,789	48,266,446
Capital assets	541,523,150	502,688,967
Less accumulated depreciation	(189,981,369)	(173,991,680)
TMPA regulatory asset	-	5,175,538
TMPA decommissioning	26,856,688	-
Total noncurrent assets	464,798,294	382,693,307
Total assets	$ 575,053,219	$ 486,561,950
Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	$ 883,111	$ 928,054
Pensions	5,957,240	2,188,486
Benefits	344,387	258,488
Total deferred outflows of resources	$ 7,184,738	$ 3,375,028

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

Bryan Texas Utilities
City Electric System
An Enterprise Fund of the City of Bryan
Statements of Net Position - continued
At September 30, 2019 and 2018

	2019	2018
Liabilities		
Current liabilities:		
Accounts payable	$ 14,845,466	$ 9,278,014
Accrued liabilities	691,228	553,603
Due to other funds	1,350,783	1,328,360
Derivative financial instruments - current portion	790,658	682,072
TMPA decommissioning - current portion	1,864,507	-
Other current liabilities	886,622	732,404
Total current liabilities	20,429,264	12,574,453
Current liabilities payable from restricted assets:		
Accrued interest	2,434,701	2,244,116
Over-recovered fuel	8,053,948	4,214,490
Over-recovered regulatory fee	-	190,765
Bonds - current portion	9,630,000	29,810,000
Customer deposits	4,709,623	4,428,996
Total current liabilities payable from restricted assets	24,828,272	40,888,367
Non-current liabilities:		
Bonds payable	223,100,000	192,140,000
Bond premium, net	23,807,177	22,107,461
Derivative financial instruments	92,453	245,982
TMPA decommissioning	24,992,181	-
Net pension liability	17,466,601	10,563,906
Other post employment benefits	3,423,775	3,354,049
Other noncurrent liabilities	306,351	306,351
Total noncurrent liabilities	293,188,538	228,717,749
Total liabilities	$ 338,446,074	$ 282,180,569
Deferred Inflows of Resources		
Deferred regulatory liability	$ 2,794,699	$ 2,668,704
Pensions	64,141	1,916,375
Total deferred inflows of resources	$ 2,858,840	$ 4,585,079
Net Position		
Net investment in capital assets	$ 126,152,078	$ 125,967,009
Restricted for:		
Debt reserve	8,107,586	5,530,868
Debt service	2,115,715	7,228,125
Rate stabilization	1,715,497	1,704,016
Collateral deposits	554,036	554,036
Unrestricted	102,288,131	62,187,276
Total net position	$ 240,933,043	$ 203,171,330

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

Bryan Texas Utilities
City Electric System
An Enterprise Fund of the City of Bryan
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended September 30, 2019 and 2018

	FY2019	FY2018
Operating revenues:		
Electrical system	$ 202,865,738	$ 197,412,987
Other	1,881,372	1,669,857
Total operating revenues	204,747,110	199,082,844
Operating expenses:		
Personnel services	12,317,512	12,133,214
Electric operations	104,908,962	118,247,170
Maintenance	3,705,615	3,642,683
Other services and charges	3,639,121	724,117
Other expenses	2,455,081	2,124,438
General and administrative	1,938,435	2,683,516
Depreciation and amortization	21,629,268	22,967,385
Total operating expenses	150,593,994	162,522,523
Operating income	54,153,116	36,560,321
Non-operating revenues (expenses):		
Investment income	4,909,309	776,947
Interest expense	(9,724,116)	(8,200,308)
Total non-operating revenues (expenses)	(4,814,807)	(7,423,361)
Income before operating transfers	49,338,309	29,136,960
Transfers:		
City of Bryan administrative payment	1,774,062	1,640,870
"Right of Way" payment to City of Bryan	(13,350,658)	(12,379,099)
	(11,576,596)	(10,738,229)
Change in net position	37,761,713	18,398,731
Net position, beginning of period	203,171,330	184,772,599
Net position, end of period	$ 240,933,043	$ 203,171,330

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

Bryan Texas Utilities
City Electric System
An Enterprise Fund of the City of Bryan
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2019 and 2018

	FY2019	FY2018
Cash flows from operating activities		
Receipts from customers	$ 204,073,010	$ 200,173,614
Payments to suppliers	(110,100,569)	(137,643,777)
Payments to employees	(10,760,134)	(12,041,547)
Net cash provided by operating activities	83,212,307	50,488,290
Cash flows from non-capital financing activities		
Operating subsidies and transfers from other funds	1,774,062	1,640,870
Operating subsidies and transfers to other funds	(13,350,658)	(12,379,099)
Net cash used by non-capital financing activities	(11,576,596)	(10,738,229)
Cash flows from capital and related financing activities		
Purchases of capital assets	(32,676,251)	(15,251,017)
Proceeds from capital debt	43,859,965	-
Principal paid on capital debt	(29,810,000)	(7,500,000)
Interest paid on capital debt	(10,589,968)	(9,773,173)
Bond issuance costs	(513,812)	-
Net cash used by capital and related financing activities	(29,730,066)	(32,524,190)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	180,379,789	77,000,000
Purchases of investments	(228,616,163)	(103,079,705)
Interest and dividends received	1,480,973	962,119
Net cash used by investing activities	(46,755,401)	(25,117,586)
Net decrease in cash and cash equivalents	(4,849,756)	(17,891,715)
Balance-beginning of the year	11,714,050	29,605,765
Balance-end of the year	$ 6,864,294	$ 11,714,050
Reconciliation of Ending Cash Balance		
Cash and cash equivalents	$ 6,310,258	$ 11,160,014
Cash and cash equivalents – restricted	554,036	554,036
Balances-end of the year	$ 6,864,294	$ 11,714,050

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

Bryan Texas Utilities
City Electric System
An Enterprise Fund of the City of Bryan
Statements of Cash Flows - continued
For the Fiscal Years Ended September 30, 2019 and 2018

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

	FY2019	FY2018
Operating income	$ 54,153,116	$ 36,560,321
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	21,629,268	22,967,385
Bad debts	120,896	123,680
Loss on disposal of assets	168,400	-
Change in assets and liabilities:		
Accounts receivable	(4,603,420)	696,009
Inventory	3,998,942	(496,815)
Under-recovered regulatory fee	(523,068)	11,068
Other assets	(605,168)	(2,835)
Deferred outflows/inflows of resources - pensions	(5,620,988)	4,453,808
Deferred outflows/inflows of resources - benefits	(85,899)	25,234
Due from other funds	2,378,605	(6,839,476)
Accounts payable	985,616	(3,473,563)
Accrued liabilities	291,844	(77,472)
Over-recovered fuel	3,648,692	272,622
Customer deposits	280,627	122,139
Net pension liability and other post-employment benefits	6,972,421	(4,309,903)
Due to other funds	22,423	456,088
Net cash provided by operating activities	$ 83,212,307	$ 50,488,290

Noncash Investing, Capital and Financing Activities	FY2019	FY2018
Capital asset acquisitions included in accounts payable	$ 4,581,836	$ 1,309,005

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

Bryan Texas Utilities
City Electric System
An Enterprise Fund of the City of Bryan
Notes to Financial Statements
For the Fiscal Years Ended September 30, 2019 and 2018

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, 2019 are as follows:

	September 30, 2019		
	BTU City	**QSE**	**Combined**
Current assets	$ 108,501,945	$ 1,752,980	$ 110,254,925
Capital assets, net	351,162,067	379,714	351,541,781
Restricted assets	86,399,825	-	86,399,825
Other	26,856,688	-	26,856,688
Total assets	572,920,525	2,132,694	575,053,219
Deferred outflows of resources	7,184,738	-	7,184,738
Current liabilities	20,417,202	12,062	20,429,264
Current liabilities payable from restricted assets	24,828,272	-	24,828,272
Noncurrent liabilities	293,188,538	-	293,188,538
Total liabilities	338,434,012	12,062	338,446,074
Deferred inflows of resources	2,858,840	-	2,858,840
Net position:			
Net investment in capital assets	125,772,364	379,714	126,152,078
Restricted	12,492,834	-	12,492,834
Unrestricted	100,547,213	1,740,918	102,288,131
Total net position	$ 238,812,411	$ 2,120,632	$ 240,933,043

The condensed combined statements of net position for the City Electric System and QSE as of September 30, 2018 are as follows:

	September 30, 2018		
	BTU City	QSE	Combined
Current assets	$ 100,897,316	$ 2,971,327	$ 103,868,643
Capital assets, net	328,231,831	465,456	328,697,287
Restricted assets	48,820,482	-	48,820,482
Other	5,175,538	-	5,175,538
Total assets	483,125,167	3,436,783	486,561,950
Deferred outflows of resources	1,458,653	-	1,458,653
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 of resources	2,668,704	-	2,668,704
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
An Enterprise Fund of the City of Bryan
Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2019 and 2018

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, 2019, are as follows:

	Fiscal Year Ended September 30, 2019		
	BTU City	QSE	Combined
Operating revenues	$ 203,295,523	$ 1,451,587	$ 204,747,110
Operating expenses	149,142,407	1,451,587	150,593,994
Operating income	54,153,116	-	54,153,116
Investment income	4,909,309	-	4,909,309
Interest expense	(9,724,116)	-	(9,724,116)
Income before operating transfers	49,338,309	-	49,338,309
Transfers, net	(11,576,596)	-	(11,576,596)
Changes in net position	37,761,713	-	37,761,713
Net position, beginning of period	201,050,698	2,120,632	203,171,330
Net position, end of period	$ 238,812,411	$ 2,120,632	$ 240,933,043

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:

	Fiscal Year Ended September 30, 2018		
	BTU City	QSE	Combined
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	182,651,967	2,120,632	184,772,599
Net position, end of period	$ 201,050,698	$ 2,120,632	$ 203,171,330

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 -

For the fiscal year ended September 30, 2019, the City Electric System adopted the following accounting pronouncements:

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. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

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. The City Electric System has never capitalized interest.

The following guidance issued by GASB is effective for years following FY 2019 and could be applicable to the City Electric System:

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. 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. 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 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.

GASB Statement No. 91, *Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

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. These unbilled revenues amounted to $2,818,455 and $3,041,914 at September 30, 2019 and 2018 respectively, and are included in accounts receivable. 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, 2019 and 2018, the City Electric System reported a current liability – over-recovered fuel of $8,053,948 and $4,214,490, 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, 2019 and 2018, the City Electric System reported a current asset – under-recovered regulatory fee of $523,068, and a current liability – over-recovered regulatory fee of $ 190,765, 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 summer 2018. 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 was amortized through FY 2019, the life of the associated debt. The balance of the impaired Regulatory Asset was $5.2 million at September 30, 2018, and was fully amortized at September 30, 2019. The remaining unimpaired $2.6 million Prepaid Energy Costs associated with TMPA was fully amortized at September 30, 2018.

On June 6, 2019 the TMPA Board of Directors approved the cessation of the production of power and energy from the Gibbons Creek power plant. The unit was removed from the ERCOT system on October 30, 2019. These actions triggered TMPA to record a decommissioning/environmental remediation liability and a corresponding discounted receivable from the member cities. The member cities are obligated to pay all associated costs associated with the decommissioning of the generating assets of TMPA. As of September 30, 2019 the calculated liability associated with decommissioning/environmental remediation was $126,443,000 of which each member city is responsible for its share. Decommissioning is estimated to take 5 years and the related maintenance is estimated to be fully complete after 30 years. The City Electric System's allocated share of TMPA's decommissioning/remediation liability is 21.24%. At September 30, 2019 the City Electric System recognized a Regulatory Asset in the amount of $26,856,688. Of this amount, $18,573,088 is associated with the decommissioning obligation and $8,283,600 is associated with the ongoing maintenance. Because of the nature of the obligation a liability for the City Electric System was recognized at September 30, 2019. The Regulatory Asset will be amortized in future periods when its costs are included in electric rates. See Note 5 below for further information regarding the liability due to TMPA.

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 for the fiscal year ended September 30, 2018.

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 $513,812 and $0 for the fiscal years ended September 30, 2019 and 2018, 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 positon 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.

Plan member contributions are recognized when due, and the City Electric System'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, 2019 and 2018, the City Electric System collected $213,329 and $677,975, respectively, of AIC. The amortization of the deferred regulatory liability was $87,334 and $83,397 for 2019 and 2018, respectively.

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

Reclassifications – Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. The reclassifications had no effect on the changes in net position.

Revisions – Certain immaterial revisions have been made to the 2018 financial statements for deferred outflows and deferred inflows of resources related to pensions. These revisions resulted in a decrease in deferred outflows of resources and deferred inflows of resources of $1,874,537. The revision had no effect on the changes in net position.

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, 2019 and 2018 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 August 14, 2018 for the fiscal year ended September 30, 2019, sets forth (1) the basic principles governing the investment of funds; (2) the objectives of the investment program; and (3) the authority, responsibilities, limitations, documentation, and requirements to be used in the administration and operation of the investment program.

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

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

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

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

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

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

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

g. Commercial Paper with a stated maturity of 180 days or less from the date of issuance that is rated not less than A-1, P-1, F-1 or its equivalent;

h. Fully collateralized repurchase agreements having a defined termination date of 90 days or less, secured by qualified obligations, pledged with a third party, and placed through a primary government securities dealer as defined by the Federal Reserve, or a bank domiciled in Texas;

i. Money Market Mutual Funds that are SEC registered no-load funds with dollar-weighted average portfolio maturity of 90 days or less;

j. Local government investment pools rated no lower than AAA or AAAm 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, 2019 and 2018 is summarized as follows:

	FY2019	**FY2018**
Demand deposits	$ 6,310,258	$ 11,160,014
Investment pools	122,735,555	15,524,900
Collateral deposits with counterparty	554,036	554,036
Treasuries	19,963,650	49,105,100
Agency securities	19,000,000	45,184,500
Total	$ 168,563,499	$ 121,528,550

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, 2019 are as follows:

		Fair Value Measurements		
	Value at FYE	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments measured at net asset value (NAV)				
Investment Pools				
TexStar	$ 86,077,366	$ -	$ -	$ -
Texas CLASS	36,658,189	-	-	-
Investments by fair value level				
Treasuries	19,963,650	19,963,650	-	-
U.S. Agency Bonds	19,000,000	-	19,000,000	-
Total	$ 161,699,205	$ 19,963,650	$ 19,000,000	$ -

The investment balances at September 30, 2018 are as follows:

		Fair Value Measurements		
	Value at FYE	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments measured at net asset value (NAV)				
Investment Pools				
TexStar	$ 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	$ 109,814,500	$ 49,105,100	$ 45,184,500	$ -

The investment in TexStar and Texas CLASS 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, 2019, the City Electric System had the following investments:

		Investment Maturity (in Years)		
Investment Types	**Fair Value**	**Less Than 1**	**1 - 5**	**Greater Than 5**
Investment Pools	$ 122,735,555	$ 122,735,555	$ -	$ -
Treasuries	19,963,650	9,966,200	9,997,450	
U.S. Agency Bonds	19,000,000	9,987,520	9,012,480	-
Total fair value	$ 161,699,205	$ 142,689,275	$ 19,009,930	$ -

As of September 30, 2018, the City Electric System had the following investments:

		Investment Maturity (in Years)		
Investment Types	**Fair Value**	**Less Than 1**	**1 - 5**	**Greater Than 5**
Investment Pools	$ 15,524,900	$ 15,524,900	$ -	$ -
Treasuries	49,105,100	29,709,000	19,396,100	
U.S. Agency Bonds	45,184,500	11,947,550	33,236,950	-
Total fair value	$ 109,814,500	$ 57,181,450	$ 52,633,050	$ -

The City Electric System's investment in investment pools includes deposits in TexStar and Texas CLASS. The pools are 2a7-like pools, which are not registered with the Securities and Exchange Commission (SEC) as an investment company, but have a policy that they will, and do, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

TexStar is a local government investment pool created by local governments and administered by 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.

Texas CLASS is a local government investment pool established under the authority of the Public Funds Investment act and is administered by Public Trust Advisors, LLC. Wells Fargo Bank, N.A. serves as custodian for Texas CLASS. Texas CLASS operates two funds in which the City Electric System participates.

- Texas CLASS is an investment option that utilizes all eligible investments as defined by the Public Funds Investment Act.
- Texas CLASS Government is an investment option that utilizes only investments that are backed or collateralized with U.S. Treasury or U.S. Government Agency obligations.

The intent of Texas CLASS is to operate on a $1.00 net asset value basis. Texas CLASS allows same day or next day redemptions and deposits. Interest is allocated daily based on portfolio earnings and participant account balances. The portfolio is valued daily using the amortized cost valuation method. 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. Texas CLASS is rated AAAm by Standard and Poors Global Ratings.

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 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.

<u>Restricted Cash and Investments</u>

In 2019, cash and investments of $168.6 million exceeded amounts required to be restricted by $82.2 million. In 2018, cash and investments of $121.5 million exceeded amounts required to be restricted by $72.7 million. The City Electric System did not transfer rate stabilization funds to unrestricted assets in fiscal year 2019 or 2018.

Amounts required to be restricted at September 30, 2019 and 2018 are as follows:

	FY2019	FY2018
Rate stabilization fund	$ 1,715,497	$ 1,704,016
Debt reserve	8,107,586	5,530,868
Debt service	4,550,416	9,472,241
Bond funds for construction	40,135,631	22,725,070
TMPA decommissioning fund	18,573,088	-
Over-recovered fuel expense	8,053,948	4,214,490
Over-recovered regulatory fee	-	190,765
Customer deposits	4,709,623	4,428,996
Collateral deposits	554,036	554,036
Restricted cash and investments	$ 86,399,825	$ 48,820,482

3. Capital Assets

General Description – Total capital assets include production, transmission, distribution and general plant facilities. At September 30, 2019, 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.

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, 2019.

Bryan Texas Utilities
City Electric System
An Enterprise Fund of the City of Bryan
Notes to Financial Statements - continued
For the Fiscal Years Ended September 30, 2019 and 2018

Capital asset activity for the fiscal year ended September 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 6,031,481	$ -	$ -	$ 6,031,481
Construction in Progress	18,078,015	38,531,283	7,300,943	49,308,355
Retirement in Progress	132,507	371,844	258,572	245,778
Total capital assets, not being depreciated	24,242,003	38,903,127	7,559,516	55,585,614
Capital assets, being depreciated:				
Production Plant	107,177,701	548,149	-	107,725,850
Transmission Plant	180,380,841	894,240	11,940	181,263,141
Distribution Plant	159,755,768	5,014,536	91,768	164,678,536
General Plant (including QSE)	30,692,225	1,618,113	480,758	31,829,580
Non-Utility Plant	440,429	-	-	440,429
Total capital assets, being depreciated	478,446,964	8,075,038	584,466	485,937,536
Less accumulated depreciation for:				
Production Plant	53,045,171	3,513,889	-	56,559,060
Transmission Plant	41,815,379	5,414,934	17,697	47,212,616
Distribution Plant	62,737,474	5,078,976	221,320	67,595,130
General Plant (including QSE)	16,393,656	2,519,918	312,357	18,601,217
Non-Utility Plant	-	13,346	-	13,346
Total accumulated depreciation	173,991,680	16,541,063	551,374	189,981,369
Total capital assets, being depreciated, net	304,455,284	(8,466,025)	33,092	295,956,167
Total capital assets, net	$ 328,697,287	$ 30,437,102	$ 7,592,607	$ 351,541,781

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

	Beginning Balance	Increases	Decreases	Ending Balance
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 \$21.6 million and \$23.0 million, for the fiscal years ended September 30, 2019 and 2018, respectively, which includes \$5.2 million and \$7.3 million for the fiscal years ended September 30, 2019 and 2018, respectively related to amortization of prepaid energy. Cash paid for removal costs were approximately \$372,000 and \$1,039,000 for the years ended September 30, 2019 and 2018, respectively.

4. Long-Term Debt

For the fiscal year ended September 30, 2019, the City of Bryan issued revenue bonds dated November 29, 2018 ("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 ranging from 4.0% to 5.0%. The proceeds from the sale of the 2018 Revenue Bonds were restricted to the acquisition or construction of improvements, additions, or extensions to the City Electric System, including facilities for the generation, transmission, or distribution of electric power and energy, and capital assets, facilities and equipment incident and related to the operation, maintenance, or administration of the City Electric System. The City did not issue bonds for the City Electric System in the 2018 fiscal year.

In prior fiscal 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, 2019 and 2018, no City Electric System outstanding revenue bonds were defeased.

Changes to long term debt during fiscal year 2019, including current portion are as follows:

	Interest Rates (%)	Series Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Revenue Bonds:							
Series 2010	5.000	2019	$ 20,975,000	$ -	$ 20,975,000	$ -	$ -
Series 2012	3.125 - 5.000	2037	39,130,000	-	2,505,000	36,625,000	2,125,000
Series 2016	3.000 - 5.000	2041	70,680,000	-	1,960,000	68,720,000	2,060,000
Series 2017	3.000 - 5.000	2034	54,690,000	-	2,575,000	52,115,000	2,700,000
Series 2018	4.000 - 5.000	2043	-	40,590,000	-	40,590,000	915,000
Total Revenue Bonds			185,475,000	40,590,000	28,015,000	198,050,000	7,800,000
Certificates of Obligation:							
Series 2014	2.000 - 5.000	2039	30,950,000	-	1,070,000	29,880,000	1,090,000
Total Certificates of Obligation			30,950,000	-	1,070,000	29,880,000	1,090,000
General Obligation Bonds							
Series 2015	2.000 - 4.000	2025	5,525,000	-	725,000	4,800,000	740,000
Total General Obligation Bonds			5,525,000	-	725,000	4,800,000	740,000
Total long-term debt			$221,950,000	$ 40,590,000	$ 29,810,000	$232,730,000	$ 9,630,000

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

	Interest Rates (%)	Series Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Revenue Bonds:							
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
Certificates of Obligation:							
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
General Obligation Bonds							
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, 2019 and 2018.

Under the terms of the revenue bond covenants, the City Electric System is required to maintain minimum reserve fund requirements equal to approximately one year of revenue bond debt service requirements. The reserve fund requirements may be satisfied by cash, a letter of credit or an insurance policy. The reserve fund requirements for the Series 2010, 2012, and 2018 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

Year Ending September 30	Principal	Interest	Total
2020	$ 7,800,000	$ 8,900,057	$ 16,700,057
2021	8,190,000	8,510,057	16,700,057
2022	8,615,000	8,100,557	16,715,557
2023	8,025,000	7,693,257	15,718,257
2024	8,400,000	7,319,288	15,719,288
2025 - 2029	48,615,000	30,003,187	78,618,187
2030 - 2034	53,395,000	17,430,094	70,825,094
2035 - 2039	36,485,000	7,672,700	44,157,700
2040 - 2043	18,525,000	1,481,650	20,006,650
Total	$ 198,050,000	$ 97,110,847	$ 295,160,847

Certificates of Obligation

Year Ending September 30	Principal	Interest	Total
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	1,215,000	894,991	2,109,991
2025 - 2029	6,770,000	3,775,119	10,545,119
2030 - 2034	7,925,000	2,617,356	10,542,356
2035 - 2039	9,445,000	1,093,221	10,538,221
Total	$ 29,880,000	$ 12,293,401	$ 42,173,401

General Obligation Bonds

Year Ending September 30	Principal	Interest	Total
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	835,000	52,975	887,975
2025	870,000	19,575	889,575
Total	$ 4,800,000	$ 535,450	$ 5,335,450

Total Debt

Year Ending September 30	Principal	Interest	Total
2020	$ 9,630,000	$ 10,073,273	$ 19,703,273
2021	10,070,000	9,631,873	19,701,873
2022	10,540,000	9,173,623	19,713,623
2023	10,010,000	8,700,773	18,710,773
2024	10,450,000	8,267,254	18,717,254
2025 - 2029	56,255,000	33,797,881	90,052,881
2030 - 2034	61,320,000	20,047,450	81,367,450
2035 - 2039	45,930,000	8,765,921	54,695,921
2040 - 2043	18,525,000	1,481,650	20,006,650
Total	**$ 232,730,000**	**$ 109,939,698**	**$ 342,669,698**

5. TMPA Decommissioning Liability

On June 6, 2019, the TMPA Board of Directors approved the cessation of the production of power and energy from TMPA's Gibbons Creek Steam Electric Station ("GCSES"). The unit was removed from the ERCOT system on October 30, 2019. These actions triggered TMPA to record a decommissioning/environmental remediation liability and a corresponding discounted receivable from the TMPA Member Cities, as they are obligated to pay all associated costs. The City Electric System recorded a short-term and long-term liability to TMPA for its percentage share of the remediation liabilities of $1,864,507 and $24,992,181, respectively, as of September 30, 2019.

See Note 11 – Texas Municipal Power Agency.

Changes to the liability to TMPA during fiscal year 2019, including current portion are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
TMPA decommissioning liability	$ -	$26,856,688	$ -	$26,856,688	$1,864,507

6. 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 887 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 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, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	611
Inactive employees entitled to but not yet receiving benefits	470
Active employees	877
Total	1,958

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 were 15.22% and 14.99% in calendar years 2018 and 2019, respectively. The City Electric System's contributions to TMRS for the year ended September 30, 2019 were $2,081,673, and were equal to the required contributions.

Net Pension Liability
The City's Net Pension Liability (NPL) was measured as of December 31, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions:

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

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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 funding needs of TMRS.

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

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

	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	100%	

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Beginning Balance at 12/31/2017	$327,842,519	$ 287,442,558	$ 40,399,961
Changes for the year:			
Service Cost	9,355,492	-	9,355,492
Interest	21,996,726	-	21,996,726
Difference between expected and actual experience	631,794	-	631,794
Contributions - employer	-	8,972,275	(8,972,275)
Contributions - employee	-	4,123,958	(4,123,958)
Net investment income	-	(8,610,807)	8,610,807
Benefit payments, including refunds of employee contributions	(13,285,700)	(13,285,700)	-
Administrative expense	-	(166,408)	166,408
Other changes	-	(8,694)	8,694
Net changes	18,698,312	(8,975,376)	27,673,688
Ending Balance at 12/31/2018	$ 346,540,831	$ 278,467,182	$ 68,073,649
Ending Balance at 12/31/18 - City Electric System			$ 17,466,601

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, 2019 and 2018.

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

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

	1% Decrease in Discount Rate 5.75%	Discount Rate 6.75%	1% Increase in Discount Rate 7.75%
City Electric System's net pension liability	$ 30,556,510	$ 17,466,601	$ 6,790,048

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 years ended September 30, 2019 and 2018, the City Electric System recognized pension expense of $3,582,700 and $2,390,331, respectively.

At September 30, 2019, 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	$ 240,309	$ (64,141)
Changes in actuarial assumptions	126,634	-
Difference between projected and actual investment earnings	3,828,454	-
Contributions subsequent to the measurement date	1,761,843	-
Total	$ 5,957,240	$ (64,141)

Deferred outflows of resources of $1,761,843 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ending September 30
2020	$ 1,504,256
2021	592,709
2022	570,202
2023	1,464,089
Total	$ 4,131,256

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	-	(1,703,695)
Contributions subsequent to the measurement date	1,698,819	-
Total	$ 2,188,486	$ (1,916,375)

7. 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. Neither the City, nor the City Electric System, issue stand-alone financial statements for the Post-Employment Benefits plan, but all required information is presented in the City's CAFR.

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

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

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

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

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

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

Once the retiree or spouse is enrolled in Medicare, the City's plan becomes the secondary payer. 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 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, 2019, retirees paid $608,388 in premiums and $2,156,198 in claims and premiums were paid for post-retirement health care and administrative charges. As of September 30, 2019, 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 $28,726 and incurred claims and administrative expenses of $144,752 during the year ended September 30, 2019. As of September 30, 2019, 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 2019 $375,000 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, 2019:

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

Contributions to the Plan

For the year ended September 30, 2019 the City's contributions were $1,624,112, or 2.65% of covered-employee payroll, and the City Electric System's contributions were $348,278 (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, 2018 (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 $17,265,479 and the net OPEB liability (net of plan fiduciary net position of $1,090,337) was $16,175,142.

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
Amortization Period	Closed, 29-years as of September 30, 2019
Asset Valuation	Market Value
Investment Rate of Return	6.5%, net of investment expenses, including inflation
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 covering the four-year period ending December 31, 2014 and a measurement date of December 31, 2018.

For the purposes of the valuation performed as of December 31, 2018, 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Allocation-weighted Long-term Expected Real Rate of Return
Domestic Equity - Large Cap	26.5%	5.6%	1.5%
Domestic Equity - Small/Mid Cap	12.5%	5.9%	0.7%
Non-US Equity - Developed	6.0%	5.7%	0.3%
Non-US Equity - Emerging	3.3%	6.8%	0.2%
US Corporate Bonds - Core	43.5%	2.3%	1.0%
US Corporate Bonds - Long Dur.	0.0%	2.6%	0.0%
US Corporate Bonds - High Yield	1.5%	4.5%	0.1%
Non-US Debt - Developed	0.0%	1.4%	0.0%
Non-US Debt - Emerging	0.0%	4.1%	0.0%
US Treasuries (Cash Equivalents)	5.0%	0.8%	0.0%
TIPS (Inflation Protected)	0.0%	1.6%	0.0%
Real Estate	1.8%	4.4%	0.1%
Hedge Funds	0.0%	3.9%	0.0%
Commodities	0.0%	2.5%	0.0%
Infrastructure	0.0%	4.8%	0.0%
Private Equity	0.0%	8.0%	0.0%
Total	100.0%		4.0%
Expected Inflation			2.5%
Total Return			6.5%

Changes in the Net OPEB Liability

		Total OPEB Liability (a)		Plan Fiduciary Net Position (b)		Net OPEB Liability (a) - (b)
Beginning Balance at 12/31/2017	$	16,491,526	$	641,541	$	15,849,985
Service cost		492,419		-		492,419
Interest on the total OPEB liability		1,052,909		-		1,052,909
Changes of benefit terms		-		-		-
Difference between expected and actual experience		306,887		-		306,887
Changes of assumptions		-		-		-
Employer contributions		-		1,578,262		(1,578,262)
Net investment income		-		(46,639)		46,639
Benefits payments		(1,078,262)		(1,078,262)		-
Administrative expense		-		(4,565)		4,565
Other		-		-		-
Net changes		773,953		448,796		325,157
Ending Balance at 12/31/18	$	17,265,479	$	1,090,337	$	16,175,142
Ending Balance at 12/31/2018 - City Electric System					$	3,423,775

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, 2019.

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:

		1.0% Decrease 5.50%		Discount Rate 6.50%		1.0% Increase 7.50%
City Electric System Net OPEB Liability	$	3,818,600	$	3,423,775	$	3,077,649

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:

	1.0% Decrease	**Current Rate Assumption**	**1.0% Increase**
City Electric System Net OPEB Liability	$ 2,996,566	$ 3,423,775	$ 3,934,439

OPEB Expense and Deferred Outflows of Resources

For the year ended September 30, 2019, the City Electric System recognized OPEB expense of $332,105. At September 30, 2019, the City Electric System reported deferred outflows of resources related to OPEB from the following sources and in the following amounts:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience, liability	$ 58,278	$ -
Difference between projected and actual experience, asset	18,300	-
Contributions subsequent to the measurement date	267,809	-
Total	$ 344,387	$ -

The $267,809 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, 2020. Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Year Ending September 30
2020	$ 12,138
2021	12,138
2022	12,138
2023	12,010
2024	7,531
Thereafter	20,623
Total	$ 76,578

At September 30, 2018 the City Electric System reported deferred outflows of resources and deferred inflows of resources related to the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual experience, asset	$ 511	$ -
Contributions subsequent to the measurement date	257,977	-
Total	$ 258,488	$ -

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:

Statement of Fiduciary Net Position

	December 31, 2018
Assets	
Investments (fair value)	$ 1,090,337
Total assets	$ 1,090,337
Liabilities	
Payables	$ -
Total liabilities	$ -
Net position restricted for OPEB	$ 1,090,337

8. 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, 2019 and 2018, the City Electric System paid the City $714,182 and $618,778, respectively, for participation in the City's risk management program.

9. 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, 2019, 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 to serve budgeted load. BTU projects total natural gas needs as part of a 5-year forecast. This forecast is the basis for the procurement amount of the hedgeable item. BTU's potential hedging derivatives are NYMEX and HSC indexed commodity swaps. These derivatives act as cash flow hedges.

BTU utilized regression analysis to test effectiveness of its New York Mercantile Exchange ("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 2019. The correlation coefficient of (0.8596) 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 0.9592 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, 2019 and 2018, the total fair value of outstanding hedging derivative instruments was a net liability of $883,111 and $928,054 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 $790,658 and $682,072 at September 30, 2019 and 2018, 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 $92,453 and $245,982 at September 30, 2019 and 2018, 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, 2019, the fair value of the City Electric System's hedging derivative instruments - NYMEX-based commodity swaps - increased by $44,943; which is reported in the Statements of Net Position as a decrease of deferred outflows of resources. The deferred outflows are reported until respective contract expirations occur in conjunction with hedged expected physical fuel purchases. When fuel purchase transactions occur, the deferred balance associated with the expired fuel hedging contract is recorded as an adjustment to fuel expense. At September 30, 2019 and 2018, the deferred outflows of resources related to hedging derivatives were $883,111 and $928,054 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, 2019:

Type	Terms	Volume Hedged (MMBtu)	Execution Dates	Maturity Dates	Reference Index	Fair Value
Commodity Swaps	BTU pays prices of $2.412 – 2.925	2,983,500	Oct 2015 - Aug 2019	Oct 2019 - Dec 2020	NYMEX	$(883,111)

The following information details the City Electric System's hedging derivative instruments as of September 30, 2018:

Type	Terms	Volume Hedged (MMBtu)	Execution 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)

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 2019, prompt month prices were $2.251/MMBtu and $2.449/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.

10. 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 $170,000 and a maximum aggregate stop loss deductible of $13,788,180 for the twelve month period which began January 1, 2019 and ends December 31, 2019. 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 $651,923 for calendar year 2017, $682,405 for calendar year 2018, and $79,380 for calendar year 2019 to date in settlements that exceed insurance coverage applicable to individual stop loss coverage.

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

	FY 2019	FY 2018
Beginning balance unpaid claims	$ 1,382,976	$ 1,264,047
Incurred claims	10,982,473	10,089,459
Claim payments	(10,970,333)	(9,970,530)
Ending balance unpaid claims	$ 1,395,116	$ 1,382,976
Amounts due in one year	$ 1,395,116	$ 1,382,976

11. 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.

Until September 18, 2018, TMPA operated the Gibbons Creek power plant, a coal-fired generating plant located in Grimes County, Texas with a net generating capability of 470 megawatts. The plant began commercial operation on October 1, 1983. On June 6, 2019, the TMPA Board of Directors voted to permanently retire the plant and TMPA is now engaged in the decommissioning of the plant. 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.

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.

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

The PSC provided that upon dissolution of TMPA, the assets of TMPA will automatically be transferred to the Member Cities, with each Member City receiving an undivided interest in the assets of TMPA in proportion to the amount paid by the Member City to TMPA. The JOA, for purposes of implementing the automatic transfer of assets upon dissolution of TMPA, requires TMPA to periodically make this calculation for each business unit, and sets out formulas for making these calculations. Under the JOA, these ownership calculations are relevant not only to the allocation of assets upon dissolution of TMPA, but also to the allocation of certain proceeds from the sale of assets, and in some cases, the allocation of TMPA costs.

If requested by a majority of the Member Cities, TMPA is required by the JOA to transfer a divided interest in the transmission system to each Member City. Under this partition process, the objective is for each City to receive ownership of transmission facilities in the vicinity of the Member City, and in proportion to the Member City's ownership interest in the transmission business. Any such transfer of transmission assets must be in compliance with relevant bond covenants, including those requiring defeasance of all or a portion of transmission debt.

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

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

Unless terminated earlier through the mutual consent of all parties, the JOA remains in effect until the dissolution of TMPA.

Gibbons Creek power plant's operational status with ERCOT transitioned to: Seasonal Operations, effective September 26, 2017 (operated from May 21, 2018 through September 18, 2018); Reserve Shutdown, effective October 1, 2018; and Indefinite Mothball, effective June 1, 2019. On June 28, 2019, a notification to ERCOT was made to remove Gibbons Creek from the ERCOT system, effective

October 23, 2019. The unit was actually removed from the ERCOT system on October 30, 2019. Due to the significant decline in the service utility of the generation assets, such assets were largely impaired as of September 30, 2017, with a final impairment on September 30, 2018. Effective September 1, 2018, the only debt remaining at TMPA is Transmission Debt.

A decommissioning assessment study was performed in 2018. The study, has been used to calculate a decommissioning/environmental remediation liability of $126,443,000 as of September 30, 2019. Decommissioning is estimated to take 5 years and related maintenance will be required for at least 30 years after the decommissioning is complete. BTU has recorded a TMPA decommissioning obligation of $26,856,688 as of September 30, 2019.

In 2016 and 2017, TMPA issued requests for proposals ("RFPs") regarding the proposed sale of Gibbons Creek power plant and certain transmission assets. Proposals received in connection with the 2016 and 2017 RFP's were pursued, but negotiations were ultimately discontinued. In 2019, TMPA issued an RFP involving only the sale of generation assets. Proposals were received in August 2019 and are undergoing evaluation by TMPA.

At September 30, 2019, BTU's portion of outstanding TMPA bonds and note purchase agreement was approximately $47.2 million. At September 30, 2018, BTU's portion of outstanding TMPA bonds and commercial paper was approximately $45.7 million.

During the years ended September 30, 2019 and 2018, the City Electric System paid TMPA $2,448,981 and $27,602,871 respectively for power purchases and related activity under the contract. As of September 30, 2019 and 2018, the City Electric System had payables to TMPA amounting to $19,753 and $0, respectively.

TMPA's Annual Financial Report for the year ended September 30, 2019 reported the following:

	FY2019
Total Assets	$ 366,203,000
Total Deferred Outflows of Resources	-
Total Liabilities	381,676,000
Total Deferred Inflows of Resources	-
Total Net Position	$ (15,473,000)
Change in Net Position for year ended September 30, 2019	$ (29,688,000)

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

12. 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, 2019 and 2018, the Rural Electric System's purchased power, fuel, and regulatory charges were the following:

	FY2019	**FY2018**
Purchased power cost	$ 10,880,802	$ 19,446,505
Fuel cost	13,863,294	15,593,439
Regulatory charges	5,386,196	5,225,190
Total	$ 30,130,292	$ 40,265,134

The Rural Electric System had payables to the City Electric System, as of September 30, 2019 and 2018, in the amount of $3,438,992 and $7,900,138 respectively.

In addition to the $13,350,658 and $12,379,099 transferred to the City of Bryan for right of way in 2019 and 2018, respectively, the City Electric System paid the City of Bryan $3,569,291 and $867,368 for administrative functions performed by City personnel for the years ended September 30, 2019 and 2018, respectively. These amounts are included in the other expenses in the accompanying financial statements.

The City of Bryan transferred to City Electric System $1,774,062 and $1,640,870 in 2019 and 2018, 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.

13. <u>Commitments and Contingencies</u>

BTU purchase and construction commitments were $477.7 million at September 30, 2019. This amount primarily includes provisions for future fuel and energy purchases.

On November 15, 2018, BTU executed forward market power purchases for the term from January 1, 2023 to October 31, 2027, to support BTU's projected baseload energy requirements over those respective years. BTU transacted with one counterparty for the total power purchase of approximately 440,785 MWh.

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

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

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

On April 30, 2010, BTU entered into a 25 year power purchase agreement with Fotowatio Renewable Ventures (FRV). 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.

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 2019 and 2018, the City System incurred approximately $0 and $935,000 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 and completed during 2018. No subsequent degradation has been noted. BTU staff will continue to regularly monitor the status of the dam.

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

14. Subsequent Events

On January 1, 2020, BTU implemented retail rate changes to its power supply adjustment and regulatory charges. The City Electric System power supply adjustment decreased by 8.5% due to lower net energy costs. The City Electric System's regulatory charges, including those billed to the Rural Electric System, increased by 15% due to increases in ERCOT system-wide transmission cost of service expenses. The overall effect of these changes will reduce retail rates by 0.8%, on average.

Bryan Texas Utilities
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City of Bryan Schedule of Contributions – Texas Municipal Retirement System

Last Ten Fiscal Years (will ultimately be displayed – see note below)

	2015	2016	2017	2018	2019
Actuarially Determined Contribution	$ 7,686,872	$ 8,279,509	$ 8,521,169	$ 8,887,727	$ 9,224,947
Contributions in relation to the actuarially determined contribution	7,686,872	8,279,509	8,521,169	8,887,727	9,224,947
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 48,991,679	$ 54,614,239	$ 55,894,466	$ 58,312,792	$ 61,308,968
Contributions as a percentage of covered payroll	15.69%	15.16%	15.25%	15.24%	15.05%
BTU contributions in relation to the actuarially determined contribution	$ 1,997,618	$ 2,149,227	$ 2,152,828	$ 2,219,516	$ 2,081,673
BTU Covered payroll	$ 12,723,543	$ 14,171,272	$ 14,136,800	$ 14,549,172	$ 13,835,024
Contributions as a percentage of covered payroll	15.70%	15.17%	15.23%	15.26%	15.05%

Notes to Schedule of Contributions

For the fiscal year ended September 30, 2019, included in the City of Bryan's contributions to TMRS of $9,224,947, were $2,081,673 in contributions from BTU. 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.

Only five 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

Acutarial Cost Method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining Amortization period	27 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.

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

Last Ten Calendar Years (will ultimately be displayed – see note below)

	2014	2015	2016	2017	2018
Total Pension Liability					
Service Cost	$ 7,088,933	$ 7,796,505	$ 8,498,467	$ 8,991,102	$ 9,355,492
Interest (on the Total Pension Liability)	18,281,849	19,160,943	19,655,455	20,795,590	21,996,726
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(1,764,543)	(1,545,768)	450,762	395,105	631,794
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)	(13,285,700)
Net Change in Total Pension Liability	12,488,450	17,304,100	16,537,551	18,328,715	18,698,312
Total Pension Liability - Beginning	263,183,703	275,672,153	292,976,253	309,513,804	327,842,519
Total Pension Liability - Ending (a)	$ 275,672,153	$ 292,976,253	$ 309,513,804	$ 327,842,519	$ 346,540,831
Plan Fiduciary Net Position					
Contributions - Employer	$ 7,667,195	$ 7,727,068	$ 8,035,947	$ 8,656,073	$ 8,972,275
Contributions - Employee	3,312,987	3,490,130	3,741,223	3,964,541	4,123,958
Net Investment Income	12,827,812	349,403	15,980,505	34,922,324	(8,610,807)
Benefit payments, including refunds of employee contributions	(11,117,789)	(11,685,311)	(12,067,133)	(11,853,082)	(13,285,700)
Administrative expense	(133,929)	(212,814)	(180,465)	(180,962)	(166,408)
Other	(11,011)	(10,511)	(9,723)	(9,171)	(8,694)
Net Change in Plan Fiduciary Net Position	12,545,265	(342,034)	15,500,354	35,499,723	(8,975,376)
Plan Fiduciary Net Position - Beginning	224,239,250	236,784,515	236,442,481	251,942,835	287,442,558
Plan Fiduciary Net Position - Ending (b)	$ 236,784,515	$ 236,442,481	$ 251,942,835	$ 287,442,558	$ 278,467,182
Net Pension Liability - Ending (a) - (b)	$ 38,887,638	$ 56,533,772	$ 57,570,969	$ 40,399,961	$ 68,073,649
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.89%	80.70%	81.40%	87.68%	80.36%
Covered Payroll	$ 47,328,382	$ 49,849,779	$ 53,382,332	$ 56,523,781	$ 58,936,756
Net Pension Liability as a Percentage of Covered Payroll	82.17%	113.41%	107.85%	71.47%	115.50%
BTU Net Pension Liability - Ending	$ 10,004,206	$ 14,584,858	$ 14,846,900	$ 10,563,906	$ 17,466,601
BTU Covered Payroll	$ 12,191,818	$ 12,969,411	$ 13,762,330	$ 14,228,102	$ 13,835,024
BTU Net Pension Liability as a Percentage of Covered Payroll	82.06%	112.46%	107.88%	74.25%	126.25%

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

Only five 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 $17,466,601 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 25% for the year ended September 30, 2019.

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 25% for the year ended September 30, 2018.

The ratio of the City Electric System contributions to TMRS as a percentage of City-wide contributions to TMRS was 25% for the years ended September 30, 2017, 2016, 2015, and 2014.

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

Last Ten Fiscal Years (will ultimately be displayed – see note below)

	2018	2019
Actuarially Determined Contribution	$ 1,498,635	$ 1,528,513
Actual Contributions	1,471,374	1,624,112
Contribution deficiency (excess)	$ 27,261	$ (95,599)
Covered Employee Payroll	$ 58,312,792	$ 61,308,698
Actual Contribution as a % of Covered Employee Payroll	2.52%	2.65%
BTU Actual Contributions	$ 315,524	$ 348,278
BTU Covered Employee Payroll	$ 14,549,172	$ 13,835,024
BTU Actual Contribution as a % of BTU Covered Employee Payroll	2.17%	2.52%

Notes to Schedule of Contributions

Only two years 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
Amortization Period	Closed, 29-years as of September 30, 2019
Asset Valuation	Market Value
Investment Rate of Return	6.5%, net of investment expenses, including inflation
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
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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 – see note below)

	2017	2018
Total OPEB Liability		
Service Cost	$ 478,077	$ 492,419
Interest (on the Total Opeb Liability)	1,021,963	1,052,909
Changes of benefit terms	-	-
Difference between expected and actual experience	-	306,887
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	(983,981)	(1,078,262)
Net Change in Total OPEB Liability	516,059	773,953
Total OPEB Liability - Beginning	15,975,467	16,491,526
Total OPEB Liability - Ending (a)	$ 16,491,526	$ 17,265,479
Plan Fiduciary Net Position		
Contributions - Employer	$ 1,608,981	$ 1,578,262
Contributions - Non-employer contributing entities	-	-
Contributions - Employee	-	-
Net Investment Income	17,311	(46,639)
Benefit payments	(983,981)	(1,078,262)
Plan administrative expense	(770)	(4,565)
Other	-	-
Net Change in Plan Fiduciary Net Position	641,541	448,796
Plan Fiduciary Net Position - Beginning	-	641,541
Plan Fiduciary Net Position - Ending (b)	$ 641,541	$ 1,090,337
Net OPEB Liability - Ending (a) - (b)	$ 15,849,985	$ 16,175,142
Liability	3.89%	6.32%
Covered Employee Payroll	$ 56,523,781	$ 58,936,756
Net OPEB Liability as a Percentage of Covered Employee Payroll	28.04%	27.44%
Net BTU OPEB Liability - Ending	$ 3,354,049	$ 3,423,775
BTU Covered Employee Payroll	$ 14,228,102	$ 14,375,640
Net OPEB Liability as a Percentage of Covered Employee Payroll	23.57%	23.82%

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

Only two years of data are 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 $3,423,775 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, 2019.

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.