

MEMORANDUM

To: Bill Thomas
Philip Stacy
Mark Cowden
Larry Howard
Mayor Bill Blackburn

From: Jill Sadberry

Date: December 14, 2020

Re: Audoit Letter and Documents

Gentlemen,

Please find attached the final Audit Report as sent to us by BSGM for your advance review as well as the Agreed Upon Procedures Report for the quarterly investment reports.

I am happy to report that KPUB received a clean opinion on both reports.

The opinion letter and this year's audit adjustments are also included. We had an unusual number of adjustments this year due to my being out with my terminally ill Mother and I did not get everything checked and balanced before year end. I would be happy to discuss them with you individually if you like.

A BSGM representative will be at the board meeting to present the report and we can discuss any questions or concerns you have. You may also call Mike or I prior to the meeting.

Regards,

Jill Sadberry
Chief Financial Officer

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

November 20, 2020

Board of Trustees
Kerrville Public Utility Board
Kerrville, Texas

We have audited the financial statements of Kerrville Public Utility Board (KPUB) for the year ended September 30, 2020, and have issued our report thereon dated November 20, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated April 30, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by KPUB are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not change during the year.

We noted no transactions entered into by KPUB during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the rates used to calculate depreciation and the unbilled revenue calculation. Management's estimate of the depreciation rate is a composite rate based on industry accepted guidelines and the rates are within those guidelines. We evaluated the key factors and assumptions used to develop the depreciation rate in determining that it is reasonable in relation to the financial statements taken as a whole. Management's estimate of the unbilled revenue calculation is also based on industry accepted guidelines and the revenue calculations are within those guidelines. We evaluated the key factors and assumptions used to develop the unbilled revenue estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are disclosed in notes to the financial statements, which are related to KPUB's long-term obligations, related party transactions, purchased power contracts, defined benefit pension plan and OPEB plan.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. All adjustments made as a part of this audit are attached to this letter.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 20, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to KPUB's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as KPUB's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, Schedule of Changes in the Net Pension Liability and Related Ratios, Schedule of Employer Contributions, and the Schedule of Changes in the Total OPEB Liability and Related Ratios, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Trustees and management of KPUB and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Balinger, Segars, Gilbert & Mass LLP

Certified Public Accountants

Client: **41205 - Kerrville Public Utility Board**
 Engagement: **2020 KPUB**
 Period Ending: **9/30/2020**
 Trial Balance: **017 - WTB - Database**
 Workpaper: **Adjusting Journal Entry Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 1				
To reclass unrecoverable mutual aid that was expensed in the wrong period.				
593.010	MAINT OF OVERHEAD LINES-LABOR		22,966.54	
107.200	CONSTRUCTION WIP IN WORK ORDER SYSTEM			22,966.54
Total			22,966.54	22,966.54

Adjusting Journal Entry JE # 2				
To update unbilled revenue to remove PCAF Collections from October.				
236.090	ACCRUED FRANCHISE FEES - UNBILLED		9,447.73	
440.990	RESIDENTIAL SALES-UNBILLED REVENUE		175,454.10	
442.990	C&I-UNBILLED REVENUE		139,470.22	
173.010	ACCRUED UNBILLED REVENUES			314,924.43
408.990	FRANCHISE FEES-UNBILLED EXPENSE			9,447.62
Total			324,372.05	324,372.05

Adjusting Journal Entry JE # 3				
To book additional payroll in 2020.				
107.220	CLEARING IN PROGRESS		39,759.01	
451.320	TAMPERING CHARGE-INGRAM		6.89	
580.010	OPERATION SUPERVISION-LABOR		47.07	
582.010	STATION EXPENSE-LABOR		778.35	
585.310	CITY STREET LIGHTS - LABOR		31.31	
585.410	CITY OF KERRVILLE - OTHER - LABOR		30.60	
586.010	METER EXPENSE-LABOR		5,081.30	
588.010	MISC DISTRIBUTION EXPENSE-LABOR		9,214.92	
588.040	MISC DISTRIBUTION EXPENSE-O/S SCVS		90.55	
588.050	MISC DISTRIBUTION - EDUCATION & TRAINING		1,412.25	
588.090	MISC DISTRIBUTION EXPENSE-MAPPING		1,531.08	
590.010	MAINT SUPERVISION & ENGINEERING-LABOR		2,171.35	
591.010	MAINT OF STRUCTURES-LABOR		336.16	
592.010	MAINT OF STATION EQUIPMENT-LABOR		3,014.97	
593.010	MAINT OF OVERHEAD LINES-LABOR		29,975.38	
593.040	MAINT OF OVERHEAD LINES-O/S SVCS		40.65	
593.080	MAINT OF OVERHEAD LINES-OVERHEAD		27.99	
594.010	MAINT OF UNDERGROUND LINES-LABOR		492.42	
595.010	MAINT OF LINE TRANSFORMERS-LABOR		103.08	
597.010	MAINT OF METERS-LABOR		199.86	
597.070	MAINT OF METERS - SCADA		1,818.53	
598.010	MAINT OF MISC DISTR PLANT-LABOR		45.71	
901.010	SUPERVISION-LABOR		2,103.39	
902.010	METER READING EXPENSE-LABOR		144.50	
903.010	CUSTOMER RECORDS & COLLECTION-LABOR		13,417.34	
903.040	CUSTOMER RECORDS & COLLECTION-O/S SVCS		13.55	
907.010	SUPERVISION-LABOR		765.87	
908.010	CUSTOMER ASSISTANCE EXPENSE-LABOR		2,245.54	
913.010	ADVERTISING-LABOR		891.13	
920.010	ADMINISTRATIVE & GENERAL SALARIES-LABOR		35,079.18	
920.030	ADMINISTRATIVE & GENERAL SALARIES-CAR AL		301.13	
921.040	ADMINISTRATIVE & GENERAL EXPENSE O/S SVC		81.31	
925.010	INJURIES & DAMAGES-LABOR		39.86	
926.300	PENSION & BENEFITS-SICK LEAVE		130.31	
926.300	PENSION & BENEFITS-SICK LEAVE		2,884.61	
930.050	Community Support - Not Billed		324.77	
242.020	ACCRUED LIABILITIES-ACCRUED PAYROLL			154,631.92
Total			154,631.92	154,631.92

Adjusting Journal Entry JE # 4				
To true up investment in congestion revenue rights for 2020 based on the ERCOT Confirmation.				
136.990	ERCOT CRR Auction Funds		122,289.50	
236.080	OVER (UNDER) RECOVERY OF POWER COST ADJ.			122,289.50
Total			122,289.50	122,289.50

Client: **41205 - Kerrville Public Utility Board**
 Engagement: **2020 KPUB**
 Period Ending: **9/30/2020**
 Trial Balance: **017 - WTB - Database**
 Workpaper: **Adjusting Journal Entry Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 1001				
Reclass amounts paid out of fund balance.				
930.040	Community Support		50,000.00	
216.010	FUND BALANCE-UNAPPROPRIATED			50,000.00
Total			<u>50,000.00</u>	<u>50,000.00</u>
Adjusting Journal Entry JE # 1002				
To reclass franchise fees for reporting purposes.				
232.010	ACCOUNTS PAYABLE		125,684.87	
236.010	FRANCHISE FEE ACCRUED-KERRVILLE			125,684.87
Total			<u>125,684.87</u>	<u>125,684.87</u>

KERRVILLE PUBLIC UTILITY BOARD

AGREED-UPON PROCEDURES REPORT

FOR THE PERIOD BEGINNING OCTOBER 1, 2019 AND ENDING SEPTEMBER 30, 2020

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

KERRVILLE PUBLIC UTILITY BOARD

AGREED-UPON PROCEDURES REPORT

FOR THE PERIOD BEGINNING OCTOBER 1, 2019 AND ENDING SEPTEMBER 30, 2020

KERRVILLE PUBLIC UTILITY BOARD
AGREED-UPON PROCEDURES
FOR THE PERIOD BEGINNING OCTOBER 1, 2019 AND ENDING SEPTEMBER 30, 2020

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79423-1954

Independent Accountant's Report
On Applying Agreed-Upon Procedures

To the Board of Trustees and
Management of
Kerrville Public Utility Board

We have performed the procedures described in Schedule A, which were agreed to by management of Kerrville Public Utility Board (KPUB), solely to assist you with respect to management's assertion about KPUB's compliance with the Texas Public Funds Investment Act (PFIA). The procedures were performed for the period of October 1, 2019 to September 30, 2020. KPUB's management is responsible for compliance with the PFIA. The sufficiency of these procedures described in Schedule A is solely the responsibility of management and the Board of Trustees. Consequently, we make no representation regarding the sufficiency of the procedures described in Schedule A either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are described in Schedule A.

This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion or conclusion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

Lubbock, Texas

October 30, 2020

Schedule A – Agreed-Upon Procedures and Findings

Procedures Performed and Associated Findings

1. Obtain the KPUB meeting minutes and determine if the Board has adopted by rule, order, ordinance or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control that complies with Texas Government Code, Section 2256.005.
 - No exceptions
2. Obtain the Board meeting minutes and determine if the Board has reviewed its investment policy and investment strategies, not less than annually, by adopting a written instrument by rule, ordinance or resolution.
 - No exceptions
3. Obtain the Board approved investment policy and determine that the Board designated by rule, order, ordinance or resolution, as appropriate, one or more officers or employees as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the Board (Texas Government Code, Section 2256.005 (f)). Inspect the investment officer training certificates and determine that such investment officer attended training relating to their responsibilities under the PFIA within one year after being appointed as an investment officer (Texas Government Code, Section 2256.008(a)).
 - No exceptions
4. Obtain the training certificates of the investment officer and determine whether such individual attended an investment training session not less than once in a two-year period, and received not less than ten hours of instruction relating to investment responsibilities (Texas Government Code, Section 2256.008(b)).
 - No exceptions
5. Obtain the Board's Investment Policy and compare the authorized investments per the investment policy with the list of allowable investments in the Texas Government Code, Chapter 2256 (the *Public Funds Investment Act*). In addition, obtain a sample of investment transactions during the year ended September 30, 2020, to test for compliance with the PFIA, Section 2256.009 through 2256.0205, and the Board's list of authorized investments.
 - No exceptions
6. Obtain the quarterly investment reports submitted to the Board for the year ended September 30, 2020, and determine if such reports demonstrate the attributes required in Texas Government Code, Section 2256.023 of the PFIA, such as investment position, signature of each investment officer and a summary of book and market value of each investment or pooled fund group.
 - No exceptions

7. Obtain the lists of actual investments owned by KPUB, as disclosed in the quarterly investment reports submitted to the Board for the quarters ended December 31, 2019, March 31, 2020, June 30, 2020, and September 30, 2020, and determine, by review of the descriptions of such investments contained in each quarterly investment report, that such investments are of the types described in the PFIA, Sections 2256.009 through 2256.0205.
 - No exceptions
8. Obtain all acknowledgements and certification letters required for all investments by Section 2256.005(k) of the PFIA and the Board's Investment Policy and compare such acknowledgement and certification letters to the list of organizations that it purchased investments from during the year.
 - No exceptions
9. Obtain the Board meeting minutes and determine whether the governing body of the Board, at least annually, reviewed, revised and adopted a list of qualified brokers that are authorized to engage in investment transactions with KPUB.
 - No exceptions

KERRVILLE PUBLIC UTILITY BOARD

KERRVILLE, TEXAS

**A COMPONENT UNIT OF
THE CITY OF KERRVILLE, TEXAS**

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

KERRVILLE PUBLIC UTILITY BOARD

KERRVILLE, TEXAS

**A COMPONENT UNIT OF
THE CITY OF KERRVILLE, TEXAS**

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

KERRVILLE PUBLIC UTILITY BOARD
KERRVILLE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

The Board of Trustees
Kerrville Public Utility Board
Kerrville, Texas

We have audited the accompanying financial statements of Kerrville Public Utility Board (KPUB), a component unit of the City of Kerrville, Texas, as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Kerrville Public Utility Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kerrville Public Utility Board, a component unit of the City of Kerrville, Texas, as of September 30, 2020 and 2019, and changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10, schedule of changes in net pension liability and related ratios, schedule of employer contributions, and schedule of changes in total OPEB liability and related ratios, on pages 37-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

November 20, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS KERRVILLE PUBLIC UTILITY BOARD

As management of the Kerrville Public Utility Board (KPUB), we offer readers of KPUB's financial statements this narrative overview and analysis of the financial activities of KPUB for the fiscal years ended September 30, 2020 and 2019. We encourage readers to consider the information presented herein in conjunction with additional information that we have furnished in the accompanying basic financial statements and notes. This discussion and analysis is designed to focus on current activities and resulting changes in financial position.

The audited financial statements presented this year include the following:

The Statements of Net Position present information on KPUB's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between the total assets plus the deferred outflows of resources and total liabilities plus deferred inflows of resources is reported as fund net position. The fund net position is classified as net investment in capital assets, restricted and unrestricted. Based upon the liquidity of each, assets are categorized as either current or noncurrent. Noncurrent assets include cash, cash equivalents, advances to The City of Kerrville and investments which have been legally restricted by contract, by bond resolutions or by action of KPUB's Board of Trustees. Other noncurrent assets include capital assets. Liabilities are categorized into current and noncurrent liabilities, highlighting the long-term nature of KPUB's net debt.

The Statements of Revenues, Expenses and Changes in Fund Net Position present the revenue and expenses for the fiscal year. Operating revenues and expenses are reported separately from non-operating activities. Operating expenses are presented by major cost categories. Operating income is available for payment of KPUB's debt service, system improvements, payments to the City of Kerrville and to assist in meeting unforeseen contingencies.

The Statement of Cash Flows present cash flow activity prepared using the direct method which reports cash receipts and payments and includes a reconciliation of operating income to net cash provided by operating activities. The cash activity is categorized into cash flows from operating activities, capital and related financial activities, noncapital financing activities and investing activities.

KPUB's excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources is reported as fund net position. At the end of the 2020 fiscal year, net position was \$69,843,094 as compared to \$67,949,782 as of September 30, 2019.

Major Transactions and Events

1) Retail Rates and Future Adjustments

KPUB implemented new rates on November 1, 2018. The rate increase was 2.6% for Residential customers and ranged from 1% to 4.2% for Commercial customers. The miscellaneous fees and service charges were also updated. The overall increase to revenue was planned to be 2.2%. There were no major changes in KPUB's rate structure for fiscal year ending September 30, 2020.

The average selling price for 2020 was .0839 per kWh, a 0.936% increase over 2019 at .0831 per kWh.

2) Wholesale Power Supply and Services

KPUB currently receives most of its electric energy and capacity from CPS Energy. KPUB also receives 20 MW of base load energy pursuant to a purchase power agreement (PPA) with NextEra Energy Power Marketing, LLC (NEPM) which became effective June 25, 2016, and expires on June 30, 2028. KPUB executed a PPA with the City of Garland, Texas, for 20 MW of wind power from the Salt Fork Wind Project in Gray County, Texas, on July 13, 2015. The agreement commenced on December 1, 2016 and expires after 14 years. KPUB has also executed a PPA with the City of Garland, Texas, for 15MW of power from the Albercas Wind Project in Webb County, Texas, on

December 15, 2015. The agreement commenced on the November 11, 2016 and expires after 20 years. These wind PPAs are currently being used as fuel and environmental hedges.

On June 20, 2018 KPUB executed six twenty-year Power Purchase Agreements for community solar systems with Renewable Energy Systems Americas (RES). RES sold the Power Purchase Agreements and Interconnection Agreements to NextEra Energy Resources in the Fall of 2018. The six systems have a combined capacity of 5.25 MW and are installed and interconnected with KPUB's distribution system at four locations across KPUB's service area. The systems reduce ERCOT 4CP Transmission costs for KPUB and provide access to solar energy to the non-profit customers hosting the systems and low and moderate income households. The systems achieved commercial operations May 31, 2019 and June 28, 2019.

In March 2018, New Braunfels Utilities led and issued a joint Request for Proposal for Solar Energy Resources that KPUB participated in. The other utilities that participated in the RFP were Bryan Texas Utilities, Garland Power and Light, and Denton Municipal Electric. This procurement effort led to the execution of Power Purchase Agreements at three projects totaling 550MW.

KPUB executed a PPA with Engie on November 20, 2018 for 25MW of capacity from their Long Draw Solar Project, in Borden County, TX. The PPA has a 15-year term with an anticipated Commercial Operations Date of November 14, 2020. The project has a total capacity of 225MW with New Braunfels Utilities, Garland Power and Light, and Denton Municipal Electric taking the balance of that capacity.

KPUB also executed a PPA with OnPeak Power/Concho Bluff LLC on December 12, 2018 for 50MW of capacity from their Greasewood Solar Project in Pecos County, TX. The PPA has a 20 year term with an anticipated Commercial Operations Date of December 21, 2020. The project has a total capacity of 255MW with New Braunfels Utilities and Garland Power and Light contracting for a total of 100MW from the project.

3) Loan to City of Kerrville

KPUB Trustees and the Kerrville City Council approved a loan from KPUB to the City to support the construction of an effluent water retention pond project. The loan has a principal amount of \$7,500,000, a thirteen-year repayment term with the first six years being interest only payments and a 2.4% interest rate. The primary purpose of the loan was to save the City the costs of issuing debt. Secondly, the loan earns KPUB ratepayers a higher return than would normally be received. The maturity date of the loan is August 1, 2029.

In September 2020, KPUB Trustees and the Kerrville City Council approved a loan from KPUB to the City to support the purchase of property by the Kerrville Economic Improvement Corporation. The loan has a principal amount of \$1,000,000, a four year repayment term with the first three and a half years being interest only payments and a 2.0% interest rate. The maturity date of the loan is September 15, 2024.

Comparison of Fiscal Years 2020 and 2019

Operating revenue were stable compared to last fiscal year at \$41,672,978 representing a decrease of \$281,870 or .6726% less than the year ended September 30, 2019.

The average cost of purchased power per kWh was \$0.053 for 2020 and \$0.052 for 2019. The average number of customers in fiscal year 2020 increased by 169 to 23,162, an increase of 0.74% from the prior year level of 22,993.

Operating expense for the year ended 2020 increased by \$636,753 or 1.66% from the prior year. Distribution expense increased by \$328,895, Depreciation increased by \$191,173, Power Cost increased by \$135,515, while A&G decreased by \$18,830.

Distribution maintenance expense had a net increase of \$315,504 from fiscal year ended September 30, 2019 due primarily to an increase in line maintenance and station equipment expenses. Distribution operation expense increased by \$13,391 due to increases in station expense and solar rent.

Customer accounting expenses decreased by \$163,218 due to decreased meter reading expenses of \$111,921, decreased labor costs of \$24,965, decreased collections and allowance of \$23,030 and misc of \$3,302.

Customer Service and Information expenses increased by \$12,321 due primarily to increased labor expenses due to the addition of the Marketing Manager position.

Administrative and general expenses increased by \$106,617 consisting of a decrease in personnel costs of \$74,056, an increase in offices supplies & expenses of \$68,572, a decrease in outside services of \$390,388, while employee pension expense costs increased by \$338,830 due to increasing pension liabilities as calculated by actuaries and general maintenance of plant increased by \$20,119 and insurance, damages and miscellaneous decreasing by \$69,694.

Depreciation and amortization expense increased \$191,173 due to normal plant additions.

As a result of the combination of the above, operating income decreased by \$918,623 from operating income for the fiscal year ended September 30, 2019.

Net non-operating expenses for 2020 of \$939,667 reflected an increase of \$114,970 from the net non-operating expense reported in the prior year. Interest and debt amortization expense decreased by \$9,964 as compared to fiscal year 2019. Payments made to the City of Kerrville, based on 3% of gross revenue, decreased by \$92,006. As a result of lower interest rates paid by TexPool, LOGIC and Centennial Bank, a decrease of \$190,509 in interest earned was realized as compared to fiscal year 2019. Other non-operating revenue decreased by \$26,294, as compared to fiscal year 2019.

Capital contributions which totaled \$354,663 in fiscal year 2019, decreased to \$279,482 in fiscal year 2020. This decrease of \$75,181 represented a decrease of 26.90% below fiscal year 2019.

The change in net position for fiscal year 2020 was \$1,893,312, as compared to \$3,002,086 for the prior period. Total net position as of September 30, 2020, was \$69,843,094 as compared to \$67,949,782 as of September 30, 2019.

Total assets and deferred outflows of resources at September 30, 2020, were \$83,872,347, as compared to \$82,383,090 at September 30, 2019. Total current assets decreased by \$1,126,757, principally due to the advance to the City of Kerrville in September, 2020. Investments, net of customer deposits, decreased by \$612,123 from a level of \$19,614,378 in 2019 to \$19,002,255 at September 30, 2020, due to an decrease in the Revenue and Construction funds of \$931,287, an increase in the Long Term Rate Stabilization Fund of \$183,583, an increase of \$122,289 in the ERCOT CRR investment, and an increase of \$13,295 in other investments. Customer accounts receivable, net of allowances, decreased, with a decrease of \$560,362 at September 30, 2020, as compared to September 30, 2019.

Materials and supplies inventory decreased by \$140,036 when compared to the previous year.

Total noncurrent assets increased by \$2,406,592 at the end of fiscal year 2020, due to normal system additions. Investments subject to governing board designation increased by \$21,482 at September 30, 2020, to \$3,534,535 when compared to fiscal year 2019. Transfers to the City of Kerrville decreased by \$92,006 over the prior year. Net capital assets increased by \$1,419,981 due to Electric Plant in Service continued improvements and expansion of the KPUB Utility Plant (System).

Total liabilities and deferred inflows of resources at September 30, 2019, were \$14,029,253 as compared to \$14,433,308 at September 30, 2019, a decrease of \$404,055 due in most part to a decrease in accounts payable, a decrease in Net Pension Liability and an increase in Deferred Inflows of Resources-Pension.

Current liabilities decreased by \$176,176. The purchased power liability increased by \$160,347. Current accounts payable decreased by \$18,417 totaling \$367,813 at September 30, 2020, as compared to \$386,230 at September 30, 2019. The current portion of revenue bonds payable increased from \$392,000 at September 30, 2019, to \$401,000 at September 30, 2020, per the bond agreement. The adjustment to over/under power cost as of September 30, 2020 resulted in a payable of \$1,983,318, while the balance as of September 30, 2019 resulted in a payable of \$2,340,094.

Non-current liabilities at September 30, 2020, decreased by \$2,487,695 from the total non-current liabilities at September 30, 2019, due to payment made on the Long-term revenue bonds of \$401,000, an increase in customer deposits of \$2,389 and due to a decrease in the net pension and OPEB liability discussed in the notes of \$2,089,084.

Comparison of Fiscal Years 2019 and 2018

Operating revenues were flat compared to last fiscal year at \$41,954,848 representing a decrease of \$212,554 or .504% less than the year ended September 30, 2018.

The average cost of purchased power per kWh was \$0.052 for 2019 and \$0.055 for 2018. The average number of customers in fiscal year 2019 increased by 168 to 22,993, an increase of 0.74% from the prior year level of 22,825.

Operating expense for the year ended 2019 decreased by \$1,729,478 or 4.30%, from the prior year. The decrease in the cost of purchased power of \$1,485,129 accounted for greatest amount of the decrease and decreased depreciation expense \$750,472 and an increase of \$506,123 in distribution and A&G make up the remainder.

Distribution maintenance expense had a net increase of \$370,983 from fiscal year ended September 30, 2018 due primarily to an increase in line maintenance and station equipment expenses. Distribution operation expense increased by \$66,092 due to increases in load dispatch, meter and miscellaneous expenses.

Customer accounting expenses decreased by \$113,071 due to decreased meter reading expenses of \$76,589, decreased collections expenses of \$21,969 and decreased labor costs of \$14,513.

Customer Service and Information expenses increased by \$15,886 due primarily to increased advertising and marketing expenses.

Administrative and general expenses increased by \$141,733 consisting of an increase in personnel costs of \$72,523, an increase in offices supplies & expenses of \$67,783, a decrease in outside services of \$196,080, while employee pension expense costs increased by \$158,646 due to increasing pension liabilities as calculated by actuaries and miscellaneous A&G expense increased by \$12,383 and insurance, damages and miscellaneous increasing by \$26,478.

Depreciation and amortization expense decreased \$750,472 due primarily to accelerating the depreciation of the obsolete meter system during FYE 9/30/2018. The acceleration was no longer necessary in FYE 9/30/2019.

As a result of the combination of the above, operating income increased by \$1,516,924 from operating income for the fiscal year ended September 30, 2018.

Net non-operating expenses for 2019 of \$824,697 reflected a decrease of \$97,604 from the net non-operating expense reported in the prior year. Interest and debt amortization expense decreased by \$23,802 as compared to fiscal year 2018. Payments made to the City of Kerrville, based on 3% of gross revenue, increased by \$20,459. As a result of higher interest rates paid by TexPool, LOGIC and Centennial Bank, an increase of \$104,216 in interest earned was realized as compared to fiscal year 2018. Other non-operating revenue increased by \$9,955, as compared to fiscal year 2018.

Capital contributions which totaled \$111,326 in fiscal year 2018, increased to \$354,663 in fiscal year 2019. This increase of \$243,337 represented an increase of 68.61% above fiscal year 2018.

The change in net position for fiscal year 2019 was \$3,002,086, as compared to \$1,144,221 for the prior period. Total net position as of September 30, 2019, was \$67,949,782 as compared to \$64,947,696 as of September 30, 2018.

Total assets and deferred outflows of resources at September 30, 2019, were \$82,383,090, as compared to \$77,517,683 at September 30, 2018. Total current assets increased by \$326,995, principally due to an increase in cash and investment balances. Investments, net of customer deposits, increased by \$523,148 from a level of \$19,091,229 in 2018 to \$19,614,378 at September 30, 2019, due to an increase in the Revenue and Construction funds of \$360,509, an increase in the Long Term Rate Stabilization Fund of \$180,000, and a decrease of \$17,361 in other investments. Customer accounts receivable, net of allowances, remained steady, with a decrease of \$171,904 at September 30, 2019, as compared to September 30, 2018.

Materials and supplies inventory remained flat, decreasing by \$8,041 when compared to the previous year.

Total noncurrent assets increased by \$3,266,976 at the end of fiscal year 2019, primarily due to the increase in electric plant in service caused by the final capitalization of the new meter system. Investments subject to governing board designation remained at the same level at September 30, 2019, of \$3,513,053 when compared to fiscal year 2018. Transfers to the City of Kerrville increased by \$20,459 over the prior year. Net capital assets increased by \$3,263,418 due to Electric Plant in Service increase for the meter system installation and other continued improvement and expansion of the KPUB Utility Plant (System).

Total liabilities and deferred inflows of resources at September 30, 2019, were \$14,433,308, as compared to \$12,569,987 at September 30, 2018, an increase of \$1,863,321 due in most part to an increase in accounts payable, and increase in Net Pension Liability and a decrease in Deferred Inflows of Resources-Pension. Current liabilities increased by \$614,837, due to an increase in Power Cost Adjustment-Over Collected of \$1,907,622 off set by a decrease in other accounts payable of 1,292,785. The purchased power liability decreased by \$34,981. Current accounts payable decreased by \$1,256,691 totaling \$386,230 at September 30, 2019, as compared to \$1,642,921 at September 30, 2018, again due to outstanding invoices for meters. The current portion of revenue bonds payable increased from \$385,000 at September 30, 2018, to \$392,000 at September 30, 2019, per the bond agreement. The adjustment to over/under power cost as of September 30, 2019 resulted in a payable of \$432,472, while the balance as of September 30, 2018 resulted in a payable of \$2,340,094.

Non-current liabilities at September 30, 2019, increased by \$1,848,463 from the total non-current liabilities at September 30, 2018, due to payment made on the Long-term revenue bonds of \$392,000, an increase in customer deposits of \$14,928 and due to an increase in the net pension and OPEB liability discussed in the notes of \$2,225,535.

The following is a summary of the schedules of net position for the past three years to be used in conjunction with the comparative analysis above:

**Kerrville Public Utility Board
Management's Discussion and Analysis
Fiscal Years Ended September 30, 2020 and 2019**

	Summary Schedules of Net Position		
	September 30,		
	2020	2019	2018
Assets and Deferred Outflows of Resources			
Current and Other Assets	\$ 34,267,654	\$ 34,407,800	\$ 34,077,248
Capital Assets-net	47,632,243	46,212,262	42,948,844
Total Assets	\$ 81,899,897	\$ 80,620,062	\$ 77,026,092
Deferred Outflows of Resources	1,972,450	1,763,028	1,131,904
Total Assets and Deferred Outflows of Resources	\$ 83,872,347	\$ 82,383,090	\$ 78,157,996
Liabilities and Deferred Inflows of Resources			
Current Liabilities	\$ 5,828,122	\$ 6,004,287	\$ 5,389,450
Noncurrent Liabilities	5,660,315	8,148,010	6,299,547
Total Liabilities	\$ 11,488,437	\$ 14,152,297	\$ 11,688,997
Deferred Inflows of Resources	2,540,816	281,011	880,990
Total Liabilities and Deferred Inflows of Resources	\$ 14,029,253	\$ 14,433,308	\$ 12,569,987
Net Position			
Net Investment in Capital Assets	\$ 43,551,243	\$ 41,739,262	\$ 38,090,844
Restricted for Debt Service	367,619	384,108	398,560
Unrestricted	25,924,232	25,826,412	26,458,292
Total Net Position	\$ 69,843,094	\$ 67,949,782	\$ 64,947,696

The following is a summary of the schedules of revenues, expenses, and changes in fund net position for the past three years to be used in conjunction with the comparative analysis above.

Kerrville Public Utility Board
Statements of Revenues, Expenses and Changes in Fund Net Position
Years Ended September 30, 2020 and 2019

	Summarized Schedules of Revenues Expenses and Changes in Net Position		
	Years Ended September 30,		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues	\$	\$	\$
Sales of Electricity	41,282,893	41,285,231	41,555,188
Other	390,085	669,617	612,214
Total Operating Revenue	<u>\$ 41,672,978</u>	<u>\$ 41,954,848</u>	<u>\$ 42,167,402</u>
Operating Expenses			
Purchased Power	\$ 27,568,854	\$ 27,433,339	\$ 28,918,468
Distribution	3,334,014	3,005,119	2,568,044
Administration	4,784,427	4,803,257	4,734,209
Depreciation	3,432,186	3,241,013	3,991,485
Total Operating Expenses	<u>\$ 39,119,481</u>	<u>\$ 38,482,728</u>	<u>\$ 40,212,206</u>
Operating Income	<u>\$ 2,553,497</u>	<u>\$ 3,472,120</u>	<u>\$ 1,955,196</u>
Non-Operating Revenues (Expenses)			
Interest and Unrealized Gain on Investments	\$ 463,863	\$ 654,509	\$ 550,293
Interest and Debt Amortization Expense	(103,015)	(112,979)	(136,781)
Payments to City of Kerrville	(1,305,091)	(1,397,097)	(1,376,638)
Other	4,576	30,870	40,825
Total Non-Operating Revenues (Expenses)	<u>\$ (939,667)</u>	<u>\$ (824,697)</u>	<u>\$ (922,301)</u>
Income Before Contributions	\$ 1,613,830	\$ 2,647,423	\$ 1,032,895
Capital Contributions	<u>279,482</u>	<u>354,663</u>	<u>111,326</u>
Change in Fund Net Position	\$ 1,893,312	\$ 3,002,086	\$ 1,144,221
Net Position, Beginning of Year	<u>67,949,782</u>	<u>64,947,696</u>	<u>63,803,475</u>
Net Position, End of Year	<u>\$ 69,843,094</u>	<u>\$ 67,949,782</u>	<u>\$ 64,947,696</u>

Capital Assets and Long-term Debt Activity

KPUB's debt service payment for fiscal year 2020 was \$536,230. Debt service coverage calculated per the bond ordinances, was 13.14x and 14.57x for fiscal years 2020 and 2019, respectively. Each year exceeds the minimum required coverage of 1.10x. On January 2, 2014, KPUB closed on a Series 2013 Utility System Revenue Bonds (Bonds) issuance totaling \$6.3 million with the final maturity scheduled for May 1, 2028. The Bonds were issued at a net interest cost of 3.16% and a required minimum coverage factor of 1.10x. Since the Bonds were sold to a local bank, the series was not rated by the rating services. For more detailed information on long-term debt refer to the notes to the financial statements.

For fiscal years ended September 30, 2020 and 2019, total expenditures for new construction and net removal costs totaled \$4,167,577 and \$6,826,938, respectively. Major capital expenditures and construction projects included: (1) Hunt Substation transformer replacement; (2) extensions of and improvements to overhead and underground facilities to increase capacity and provide service to new customers and developments; (3) improvements to and replacements on the overhead and underground distribution system for enhanced capacity and reliability; (4) improvements to KPUB's substations for enhanced reliability; (5) improvements to KPUB's information and technology infrastructure including Access System upgrades, email software updates and infrastructure upgrades; (6) vehicle and equipment replacements.

For more detailed information about capital assets, refer to Note 3 of the notes to the financial statements.

	Summary of Capital Assets (Net of Depreciation)		
	September 30,		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Distribution System	\$ 37,195,586	\$ 36,392,579	\$ 31,612,216
Land, buildings, and equipment	2,721,658	2,554,480	2,407,591
Transportation equipment	1,733,584	1,846,668	1,453,473
Other	1,594,601	1,264,375	682,999
Construction in progress	<u>4,386,814</u>	<u>4,154,160</u>	<u>6,792,565</u>
Capital assets-net of depreciation	<u>\$ 47,632,243</u>	<u>\$ 46,212,262</u>	<u>\$ 42,948,844</u>

Request for Additional Information

This financial report is designed to provide a general overview for the Kerrville Utility Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, P.O. Box 294999, Kerrville Public Utility Board, Kerrville, Texas, 78029-4999.

FINANCIAL STATEMENTS

KERRVILLE PUBLIC UTILITY BOARD

Exhibit A

STATEMENTS OF NET POSITION
SEPTEMBER 30, 2020 AND 2019

	September 30,	
	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 596,102	\$ 379,706
Investments	15,044,022	15,657,921
Accounts Receivable, Net of Allowances of \$104,813 and \$73,244 for 2020 and 2019, Respectively	1,552,676	1,790,208
Unbilled Revenue	2,068,142	2,390,972
Materials and Supplies, at Average Cost	1,011,261	1,151,297
Deposits with Other Entities	861,000	861,000
Other Current and Accrued Assets	<u>152,943</u>	<u>181,799</u>
TOTAL CURRENT ASSETS	\$ 21,286,146	\$ 22,412,903
NONCURRENT ASSETS		
Other Investments Designated for:		
Customer Deposits	\$ 523,276	\$ 538,441
Interest and Sinking Fund	423,697	443,403
Investments Subject to Governing Board Designation		
Emergency Repair, Replacement, and Contingency Fund	3,534,535	3,513,053
Advances to City of Kerrville	8,500,000	7,500,000
Capital Assets, Net of Accumulated Depreciation (Net Utility Plant)	<u>47,632,243</u>	<u>46,212,262</u>
TOTAL NONCURRENT ASSETS	\$ 60,613,751	\$ 58,207,159
DEFERRED OUTFLOWS OF RESOURCES		
Pension Plan - Employer Contribution Deferrals	\$ 412,543	\$ 387,610
Pension Plan - Changes in Assumptions		12,062
Pension Plan - Investment Differences	1,513,469	1,339,905
Pension Plan - Experience Differences		10,389
OPEB Plan - Employer Contribution Deferrals	1,240	877
OPEB Plan - Assumption Changes	44,134	10,713
OPEB Plan - Experience Differences	<u>1,064</u>	<u>1,472</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 1,972,450	\$ 1,763,028
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 83,872,347	\$ 82,383,090
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 401,000	\$ 392,000
Accounts Payable - Purchased Power	2,170,250	2,009,903
Accounts Payable - Other	367,813	386,230
Accrued Taxes	311,560	332,194
Accrued Interest	56,078	59,295
Accrued Payroll	177,744	160,267
Power Cost Adjustment - Over Collected	1,983,318	2,340,094
Accrued Employee Compensated Absences	<u>360,359</u>	<u>324,304</u>
TOTAL CURRENT LIABILITIES	\$ 5,828,122	\$ 6,004,287
NONCURRENT LIABILITIES		
Bonds Payable	\$ 3,680,000	\$ 4,081,000
Consumer Deposits and Prepayments	534,840	532,451
Net Pension Liability	1,150,256	3,299,969
Total OPEB Liability	<u>295,219</u>	<u>234,590</u>
TOTAL NONCURRENT LIABILITIES	\$ 5,660,315	\$ 8,148,010
DEFERRED INFLOWS OF RESOURCES		
Pension Plan - Experience Differences	\$ 145,951	\$ 267,575
Pension Plan - Changes in Assumptions	2,084	
Pension Plan - Investment Differences	2,382,070	
OPEB Plan - Investment Differences	997	
OPEB Plan - Assumption Changes	<u>9,714</u>	<u>13,436</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 2,540,816	\$ 281,011
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 14,029,253	\$ 14,433,308
NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 43,551,243	\$ 41,739,262
Restricted for Debt Service	367,619	384,108
Unrestricted	<u>25,924,232</u>	<u>25,826,412</u>
TOTAL NET POSITION	\$ 69,843,094	\$ 67,949,782
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 83,872,347	\$ 82,383,090

See accompanying notes to the financial statements.

KERRVILLE PUBLIC UTILITY BOARD

Exhibit B

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	September 30,	
	2020	2019
OPERATING REVENUES		
Sales of Electricity	\$ 41,282,893	\$ 41,285,231
Other	390,085	669,617
Total Operating Revenues	<u>\$ 41,672,978</u>	<u>\$ 41,954,848</u>
OPERATING EXPENSES		
Purchased Power	\$ 27,568,854	\$ 27,433,339
Distribution	3,334,014	3,005,119
Administration	4,784,427	4,803,257
Depreciation	3,432,186	3,241,013
Total Operating Expenses	<u>\$ 39,119,481</u>	<u>\$ 38,482,728</u>
OPERATING INCOME	<u>\$ 2,553,497</u>	<u>\$ 3,472,120</u>
NON-OPERATING REVENUES AND (EXPENSES)		
Interest Income	\$ 463,863	\$ 654,509
Interest Expense	(103,015)	(112,979)
Payments in Lieu of Taxes - City of Kerrville	(1,305,091)	(1,397,097)
Other	4,576	30,870
Total Non-Operating Revenues and (Expenses)	<u>\$ (939,667)</u>	<u>\$ (824,697)</u>
INCOME BEFORE CONTRIBUTIONS	\$ 1,613,830	\$ 2,647,423
Capital Contributions	<u>279,482</u>	<u>354,663</u>
CHANGE IN NET POSITION	\$ 1,893,312	\$ 3,002,086
NET POSITION, BEGINNING OF YEAR	<u>67,949,782</u>	<u>64,947,696</u>
NET POSITION, END OF YEAR	<u>\$ 69,843,094</u>	<u>\$ 67,949,782</u>

See accompanying notes to the financial statements.

KERRVILLE PUBLIC UTILITY BOARD

Exhibit C

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	September 30,	
	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Cash Received From Customers and Others	\$ 41,883,529	\$ 44,039,236
Cash Payments to Suppliers for Goods and Services	(32,345,334)	(33,583,756)
Cash Payments to Employees for Services	(3,036,942)	(2,716,553)
Net Change in Cash From Operating Activities	<u>\$ 6,501,253</u>	<u>\$ 7,738,927</u>
NON-CAPITAL FINANCING ACTIVITIES		
Interest Received From City of Kerrville	\$ 180,000	\$ 180,000
Advances to City of Kerrville	(1,000,000)	
Payments to City of Kerrville	(1,305,091)	(1,397,097)
Net Change in Cash From Non-Capital Financing Activities	<u>\$ (2,125,091)</u>	<u>\$ (1,217,097)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Additions Including Capitalized Payroll, Benefits, and Overhead	\$ (4,819,951)	\$ (6,461,340)
Interest Payments	(138,448)	(145,543)
Principal Payments	(392,000)	(385,000)
Contributions in Aid of Construction	279,482	354,663
Net Change in Cash From Capital and Related Financing Activities	<u>\$ (5,070,917)</u>	<u>\$ (6,637,220)</u>
INVESTING ACTIVITIES		
Interest Income	\$ 283,863	\$ 474,509
Net Change in Cash From Investing Activities	<u>\$ 283,863</u>	<u>\$ 474,509</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (410,892)	\$ 359,119
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>20,532,524</u>	<u>20,173,405</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 20,121,632</u>	<u>\$ 20,532,524</u>
Reconciliation of Operating Income to Net Cash		
From Operating Activities:		
Operating Income	\$ 2,553,497	\$ 3,472,120
Depreciation Expense	\$ 3,432,186	\$ 3,241,013
Other Income	4,576	30,870
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables and Unbilled Revenue	560,362	171,904
(Increase) Decrease in Power Cost Adjustment	(356,776)	1,907,622
(Increase) Decrease in Materials and Supplies	140,036	8,041
(Increase) Decrease in Other Current and Accrued Assets	28,856	(151,378)
(Increase) Decrease in Deferred Outflows of Resources	(209,422)	(1,271,437)
Increase (Decrease) in Accounts Payable and Accrued Expenses	174,828	(1,255,940)
Increase (Decrease) in Unearned Revenue - Pole Rents	0	(40,936)
Increase (Decrease) in Customer Deposits	2,389	14,928
Increase (Decrease) in Net Pension Liability	(2,149,713)	2,227,436
Increase (Decrease) in Total OPEB Liability	60,629	(1,901)
Increase (Decrease) in Deferred Inflows of Resources	2,259,805	(613,415)
Total Adjustments	<u>\$ 3,947,756</u>	<u>\$ 4,266,807</u>
Net Cash From Operating Activities	<u>\$ 6,501,253</u>	<u>\$ 7,738,927</u>

See accompanying notes to the financial statements.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

On February 10, 1987, the City Council of Kerrville, Texas approved Resolution No. 87-106, naming a five-member board of trustees, pursuant to Article 1115 Revised Civil Statutes of Texas and calling for an election for approval of issuance of bonds for the purpose of acquiring the Kerrville District Electric Distribution System (the System) from the Lower Colorado River Authority (LCRA). Voter approval was obtained on March 17, 1987, and the City Council approved Bond Ordinance 87-45 on November 24, 1987, officially establishing and empowering the Kerrville Public Utility Board (KPUB) for the purpose of controlling, managing and operating the System, as well as authorizing the issuance of \$29.5 million of City of Kerrville, Texas, Electric System Revenue Bonds for acquisition, extension and improvement of the System. KPUB is legally separate from the City of Kerrville (the City). A purchase agreement, a Wholesale Power Agreement, and an operating agreement between KPUB and LCRA were signed, and KPUB officially started operating the System on December 11, 1987, with LCRA as the operating agent.

KPUB currently receives most of its electric energy and capacity from CPS pursuant to a PPA which became effective on June 25, 2016, and expires on December 31, 2023. Under this contract, KPUB will receive 10-15 MW of base load energy and its entire load following energy from CPS. KPUB also receives 20 MW of base load energy pursuant to a PPA with NextEra Energy Power Marketing, LLC (NEPM) which became effective on June 25, 2016, and expires on June 30, 2028. KPUB executed a PPA with the City of Garland, Texas, for 20 MW of wind power from the Salt Fork Wind Project in Gray County, Texas, on July 13, 2015. The agreement commenced on the Commercial Operation Date of the Project, November 15, 2016, and expires 14 years later. KPUB has also executed a PPA with the City of Garland, Texas, for 15 MW of power from the Albercas Wind Project in Webb County, Texas, on December 15, 2015. The agreement commenced on the Commercial Operation Date of the Project, November 11, 2016, and expires 20 years later. These wind PPAs will be used as fuel and environmental hedges.

The City reports KPUB as a proprietary component unit discretely presented in its Comprehensive Annual Financial Report (CAFR). KPUB operates under one industry segment with all operations in the Kerrville, Texas area. KPUB, as part of the City, is not subject to federal income taxes.

Utility Rate Regulation

KPUB is not subject to regulation by the Public Utility Commission of Texas (PUC) with regard to its operation or rates charged for electric service to customers within the boundaries of the System. The City has exclusive original jurisdiction over the rates charged to ratepayers who reside outside the City's boundaries. Texas courts have held that the PUC has appellate jurisdiction to determine retail municipal electric rates outside the City limits if a qualified petition is filed.

Basis of Accounting

The financial statements of KPUB have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. KPUB uses the economic resources measurement focus and the full accrual method of accounting and follows the Uniform System of Accounts (USOA) prescribed for public utilities and licensees, as issued by the Federal Energy Regulatory Commission. KPUB's departs from the USOA by following GASB's treatment of contributions in aid of construction which are recorded as revenue instead of as a reduction of plant.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Electric Revenue and Purchased Power Expense

Revenue from sales of electricity is recognized as billed on a cycle basis, with recognition of unbilled revenues at September 30, 2020 and 2019, based upon the meter reading dates for the unbilled portion of each cycle. Rate schedules include power cost adjustment clauses that permit recovery of purchased power costs not included in base rates in the month after such costs are incurred. KPUB charges to expense the cost of purchased power in the period of purchase.

Budgets and Budgetary Accounting

KPUB is not legally required to adopt a budget; therefore, comparative statements of actual expenses to budgeted expenses are not included as required supplementary information.

Capital Assets

Utility plant additions are recorded at cost or acquisition value at the date of donation if acquired by gift. Cost includes the costs of contracted services, direct materials, labor, overhead and an allowance for borrowed funds used during construction (AFUDC). KPUB computes AFUDC using rates representing the cost of borrowed funds on all projects. AFUDC totaled \$43,829 and \$29,656 for the years ended September 30, 2020 and 2019, respectively. Retirements of utility plant, together with removal costs, less salvage, are charged to accumulated depreciation.

To depreciate its investment in the electric plant, KPUB uses a depreciation rate by asset class. The rates for each major asset category ranged from:

Intangible Plant	1.8% to 5.5%
Distribution Plant	2.6% to 20.0%
General Plant	8.30%
Other	3.3% to 8.0%

Restricted and Governing Board Designated Assets

The Reserve Fund and Interest and Sinking Fund were established in accordance with the City ordinance creating KPUB, as well as provisions of the trust indenture executed in conjunction with the issuance of the 2001 revenue bonds.

The Reserve Fund is to be used solely to retire the last of any outstanding bonds or to pay principal and interest on any bonds to the extent the amounts in the Interest and Sinking Fund are insufficient for such purposes. For fiscal years 2020 and 2019, the amounts in the Interest and Sinking Fund have been sufficient and, therefore, no balance is maintained in the Reserve Fund.

The Equipment Replacement Fund and the Emergency Repair and Contingency Fund were established by management at the request of the Board of Trustees (the Board). During the year the Board combined these restrictions into one policy with the Emergency Repair, Replacement, and Contingency Fund.

The Interest and Sinking Fund is to be used for the payment of bond principal and interest on all outstanding bonds as those payments come due.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

The Equipment Replacement Fund is to be used for unbudgeted construction projects, with a minimum total cost of \$100,000, approved by the Board.

The Emergency Repair and Contingency Fund is to be used for any uninsured loss occurrences, with a minimum total cost of \$100,000, resulting from disasters declared by the Board, whom also are required to approve expenses.

During the year, the Board adopted a resolution creating the Emergency Repair, Replacement, and Contingency Fund, which is to be used to fund unforeseen capital infrastructure projects of KPUB in excess of \$100,000. The resolution will level the impact on electric tariffs from those unbudgeted capital infrastructure projects.

Bond Issuance Costs

Bond issuance costs are expensed in the year of issuance.

Cash Equivalents

For purposes of the statement of cash flows, KPUB considers money market accounts, congestion revenue rights, and certificates of deposit with original maturities of one year or less from the date of acquisition to be cash equivalents.

Investments

KPUB invests funds in accordance with its policy, bond indentures and the Texas Public Funds Investment Act. Investments in investment pools are carried at net asset value (NAV) or amortized cost; non-negotiable certificates of deposit are carried at amortized cost. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Deposits with Other Entities

KPUB has placed cash on hand with the Electric Reliability Council of Texas (ERCOT) and Garland Power and Light (GPL) as assurances for certain agreements.

Inventories

Materials and supplies inventories are valued at average unit cost.

Accounts Receivable

KPUB provides an allowance for doubtful accounts to recognize receivables considered uncollectible. KPUB adjusts the allowance account monthly based on a percentage of sales.

Contingent Liabilities

KPUB provides for contingent liabilities when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. At September 30, 2020 and 2019, no such liabilities existed.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Risk Management

KPUB is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts, including theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. KPUB does not participate in a risk pool. KPUB purchases insurance to cover the aforementioned risks. There were no decreases in insurance coverage in 2020 and 2019.

Classification of Operating and Non-Operating Revenues and Expenses

KPUB defines operating revenues and expenses as those revenues and expenses generated by a specified program offering either a good or service. This definition is consistent with Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance) and depreciation. Revenues and expenses not fitting the above definitions are considered non-operating.

Pensions

KPUB participates in an agent multiple-employer defined benefit pension plan through the Texas Municipal Retirement System (TMRS). 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 TMRS and additions to/deductions from TMRS' fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

KPUB reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position.

Deferred Inflows of Resources

KPUB reports increases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, deferred inflows and outflows of resources and liabilities and disclosure of contingent assets and liabilities as of the date of the statements of net position and reported revenues and expenses for the period. Actual results could differ significantly from those estimates.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Application of Restricted and Unrestricted Net Position

KPUB may receive funding from an organization whose expenditure is restricted to certain allowable costs. In situations where both restricted and unrestricted net position is available to cover allowable expenses, KPUB will first expend the restricted net position and cover additional costs with unrestricted net position. KPUB reserves the right to selectively defer the use of restricted assets.

Pledged Revenues

Net revenues of KPUB have been pledged for the payment of its debt obligations. Net revenues are defined as gross revenues, less maintenance and operation expenses.

Comparative Financial Information

Certain amounts in the prior period financial statements have been reclassified in order to conform to current period presentation.

2. Cash, Cash Equivalents, and Investments

Cash

KPUB's bank balances totaled approximately \$505,000 as of September 30, 2020, and approximately \$347,000 as of September 30, 2019. All bank balances were either fully insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by third-party financial institutions and listing KPUB as pledgee.

Investments

KPUB's policy regarding credit risk is as follows: investments are limited pursuant to Texas state law to obligations of the United States government and other agencies or instruments thereof; direct obligations of the state of Texas or its agencies and other political subdivisions; obligations of states, agencies, counties, cities and other political subdivisions that have an investment rating of not less than A; certificates of deposit; fully collateralized repurchase agreements; certain types of commercial paper; and local government investment pools.

The State Comptroller of Public Accounts exercises oversight responsibility over a local government investment pool (TexPool). Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

A local government investment pool (LOGIC) is overseen by a five-member board of directors who are elected from its participants and is not registered with the SEC as an investment company. The investment activities of LOGIC are administered by FirstSouthwest, a division of Hilltop Securities, Inc., and JPMorgan Investment Management, Inc.; LOGIC is rated AAAM by Standard & Poor's. There is no regulatory oversight by the State of Texas over LOGIC.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Investment Objectives

The primary objectives of KPUB's investment activity are the preservation and safety of principal and liquidity of the overall portfolio. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value. KPUB's investment portfolio will remain sufficiently liquid to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing the securities with active secondary markets.

Investments shall be made with exercise of judgment and due care under prevailing circumstances, prudence, discretion and intelligence. Investments shall not be speculative, but will consider the probable safety of their capital, as well as the probable income to be derived.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in KPUB. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Interest Rate Risk - As a means of limiting its exposure to fair value losses that could occur from rising interest rates, KPUB's investment policy limits the maturities of investments and prohibits any investment for speculative gains. The maximum allowable stated maturity of any individual investment owned by KPUB is 10 years. Available funds in KPUB's Revenue Account, Equipment Replacement Account and Emergency Repair and Contingency Account are limited to an average maturity not greater than one year.

KPUB recognizes that investment risks can result from market price changes. Investment officers are expected to display prudence, discretion and intelligence in the selection of securities, as a way to minimize risk. Investments shall not be speculative, but will consider the probable safety of their capital.

The primary objectives of KPUB's investment activity are the preservation and safety of principal and KPUB's exposure to interest rate risk, no investments of KPUB have a maturity date greater than one year.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Following is a list of Cash and Cash Equivalents including investments at year end:

	September 30,	
	<u>2020</u>	<u>2019</u>
Investments, Held at NAV		
TexPool	\$ 10,190,888	\$ 3,349,433
LOGIC	2,478,826	10,064,217
Total Investment Pools	\$ 12,669,714	\$ 13,413,650
Certificates of Deposits, Fully Collateralized	6,575,990	6,581,631
Congestion Revenue Rights	279,826	157,537
Total Investments	\$ 19,525,530	\$ 20,152,818
Cash in Bank and On Hand, Fully Collateralized	\$ 596,102	\$ 379,706
Total Cash and Cash Equivalents	\$ 20,121,632	\$ 20,532,524

Credit Risk

KPUB's exposure to credit risk is presented below by investment category as rated by Standard and Poor's:

	September 30,	
	<u>2020</u>	<u>2019</u>
Investments, Held at NAV		
TexPool	\$ 10,190,888	\$ 3,349,433
LOGIC	2,478,826	10,064,217
Total Investment Pools	\$ 12,669,714	\$ 13,413,650
Ratings		
TexPool	AAAm	AAAm
LOGIC	AAAm	AAAm

Custodial Credit Risk

KPUB's certificates of deposit with the depository bank were either fully insured by the FDIC or collateralized with securities held by third-party financial institutions and list KPUB as pledgee. All certificates of deposit are made in the name of KPUB. All certificates of deposit were purchased with the delivery versus payment method and are recorded in KPUB's name on the Federal Reserve's book entry system and confirmed to KPUB via safekeeping receipt maintained on the books of the depository bank's safekeeping department.

Concentration of Credit Risk

Although KPUB's investment policy does not include an approved asset mix, the investment portfolio is diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issue or a specific class of securities. Within the constraints of cash flow requirements, investment maturities are staggered in a way that avoids undue concentration of assets in a specific maturity sector. KPUB does not invest its portfolio in one investment pool. Funds are divided between two pools for diversification and security reasons.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

The KPUB investment policy does not list prohibited investments. The policy does list allowable investments and these include:

- Obligations of the United States or its agencies and instrumentalities, as permitted by Section 2256.009 of the Texas Public Funds Investment Act.
- Certificates of deposit or share certificates issued by a depository institution that has its main office or branch office in the State of Texas and (i) are fully insured or collateralized and meeting all further requirements, as set forth in Section 2256.010 (a), as amended, Texas Government Code, or (ii) the depository institution participates in the Certificate of Deposit Account Registry Service network and meets all further requirements, as set forth in Section 2256.010 (b), Texas Government Code, as amended.
- Fully insured or collateralized certificates of deposit issued by state or national banks and savings banks or state or federal credit unions domiciled in the state of Texas meeting all other requirements, as set forth in Section 2256.010, Texas Government Code, as amended.
- Repurchase agreements collateralized by obligations of the United States or its agencies and meeting all other requirements, as set forth in Section 2256.011, Texas Government Code, as amended.
- Investment pools rated not less than AAA- or an equivalent rating by at least one nationally recognized rating service and meeting all other requirements, as set forth in Section 2256.016, Texas Government Code, as amended, including authorization by KPUB in the particular investment pool.
- Other such securities or obligations approved by the Investment Committee and permitted by the Texas Public Funds Investment Act and Bond Ordinance No. 2001-15, the investment policy also allows an eligible securities lending program, which satisfies the requirements of Section 2256.0115 of the Texas Public Funds Investment Act. KPUB did not participate in any security lending agreements during fiscal years 2020 and 2019.

As of September 30, 2020 and 2019, the following was the composition of KPUB's investment portfolio:

	September 30,	
	2020	2019
TexPool	52.19%	16.62%
LOGIC	12.70%	49.94%
Certificates of Deposit	33.68%	32.66%
Congestion Revenue Rights	1.43%	0.78%

Foreign Currency Risk

KPUB does not engage in any deposit or investment transactions involving foreign currency.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets

Capital Assets consists of general plant and electric plant in service and are comprised of the following components:

	2020				2020
	Beginning	Increases	Transfers	Decreases	Ending
	Balances				Balances
Capital Assets, Not Being Depreciated					
Land	\$ 233,398	\$ 19,487	\$	\$	\$ 252,885
Construction in Progress	4,154,160	4,868,420	(4,635,766)		4,386,814
Total Capital Assets, Not Being Depreciated	\$ 4,387,558	\$ 4,887,907	\$ (4,635,766)	\$ 0	\$ 4,639,699
Depreciable Capital Assets					
Distribution System	\$ 68,698,361	\$	\$ 3,611,072	\$ 402,738	\$ 71,906,695
Buildings and Equipment	6,894,394		496,070	20,794	7,369,670
Transportation Equipment	3,006,656		114,631	44,657	3,076,630
Other	1,737,207		413,993		2,151,200
Total Capital Assets Being Depreciated	\$ 80,336,618	\$ 0	\$ 4,635,766	\$ 468,189	\$ 84,504,195
Less Accumulated Depreciation for:					
Distribution System	\$ 32,305,782	\$ 3,000,063	\$	\$ 594,736	\$ 34,711,109
Buildings and Equipment	4,573,312	348,379		20,794	4,900,897
Transportation Equipment	1,159,988	227,715		44,657	1,343,046
Other	472,832	83,767			556,599
Total Accumulated Depreciation	\$ 38,511,914	\$ 3,659,924	\$ 0	\$ 660,187	\$ 41,511,651
Total Capital Assets Being Depreciated, Net	\$ 41,824,704	\$ (3,659,924)	\$ 4,635,766	\$ (191,998)	\$ 42,992,544
Total Capital Assets, Net	\$ 46,212,262	\$ 1,227,983	\$ 0	\$ (191,998)	\$ 47,632,243
	2019				2019
	Beginning	Increases	Transfers	Decreases	Ending
	Balances				Balances
Capital Assets, Not Being Depreciated					
Land	\$ 233,398	\$	\$	\$	\$ 233,398
Construction in Progress	6,792,565	6,826,938	(9,396,360)	68,983	4,154,160
Total Capital Assets, Not Being Depreciated	\$ 7,025,963	\$ 6,826,938	\$ (9,396,360)	\$ 68,983	\$ 4,387,558
Depreciable Capital Assets					
Distribution System	\$ 63,914,183	\$	\$ 7,498,073	\$ 2,713,895	\$ 68,698,361
Buildings and Equipment	6,509,012		465,933	80,551	6,894,394
Transportation Equipment	2,782,302		627,618	403,264	3,006,656
Other	1,109,956		627,281	30	1,737,207
Total Capital Assets Being Depreciated	\$ 74,315,453	\$ 0	\$ 9,218,905	\$ 3,197,740	\$ 80,336,618
Less Accumulated Depreciation for:					
Distribution System	\$ 32,301,967	\$ 2,876,338	\$ (177,455)	\$ 2,695,068	\$ 32,305,782
Buildings and Equipment	4,334,819	319,044		80,551	4,573,312
Transportation Equipment	1,328,829	183,598		352,439	1,159,988
Other	426,957	45,903		28	472,832
Total Accumulated Depreciation	\$ 38,392,572	\$ 3,424,883	\$ (177,455)	\$ 3,128,086	\$ 38,511,914
Total Capital Assets Being Depreciated, Net	\$ 35,922,881	\$ (3,424,883)	\$ 9,396,360	\$ 69,654	\$ 41,824,704
Total Capital Assets, Net	\$ 42,948,844	\$ 3,402,055	\$ 0	\$ 138,637	\$ 46,212,262

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

4. Long-Term Obligations

Revenue bonds issued for the acquisition, extension, and improvement of the System are comprised of the following:

	September 30,	
	2020	2019
Series 2013, Utility System Revenue Bonds, Interest		
Rates from 1.01% to 4.13% - Semiannual	\$ 4,081,000	\$ 4,473,000
Less: Current Portion	401,000	392,000
Non-Current Portion	<u>\$ 3,680,000</u>	<u>\$ 4,081,000</u>

On January 2, 2014, KPUB closed on the City of Kerrville, Texas Utility System Revenue Bonds, Series 2013 (2013 Revenue Bonds) issuance totaling \$6.3 million with a final maturity scheduled for May 1, 2029. The 2013 Revenue Bonds were issued at a net interest cost of 3.16 percent and a required minimum net revenue coverage factor of 1.10x. A reserve fund is not required to be established unless the actual net revenue coverage factor is below 1.35x.

A schedule of bond maturities and interest as of September 30, 2020, is as follows:

Fiscal Year Ending	Principal	Interest	Total
2021	\$ 401,000	\$ 130,055	\$ 531,055
2022	411,000	120,325	531,325
2023	422,000	109,197	531,197
2024	434,000	96,584	530,584
2025	448,000	82,531	530,531
2026-2030	1,965,000	159,053	2,124,053
	<u>\$ 4,081,000</u>	<u>\$ 697,745</u>	<u>\$ 4,778,745</u>

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

The following is a summary of changes in long-term obligations for the year ended September 30, 2020 and 2019, with amounts due within one year:

	October 1, 2018	Increase	Decreases	September 30, 2019	Amounts Due Within One Year
Bonds Payable	\$ 4,473,000	\$	\$ (392,000)	\$ 4,081,000	\$ 401,000
Customer Deposits	538,441	259,050	(274,215)	523,276	
	<u>\$ 5,011,441</u>	<u>\$ 259,050</u>	<u>\$ (666,215)</u>	<u>\$ 4,604,276</u>	<u>\$ 401,000</u>
	October 1, 2017	Increase	Decreases	September 30, 2018	Amounts Due Within One Year
Bonds Payable	\$ 4,858,000	\$	\$ (385,000)	\$ 4,473,000	\$ 392,000
Customer Deposits	517,523	293,457	(272,539)	538,441	
	<u>\$ 5,375,523</u>	<u>\$ 293,457</u>	<u>\$ (657,539)</u>	<u>\$ 5,011,441</u>	<u>\$ 392,000</u>

5. Related Party Transactions

Pursuant to the bond ordinance, KPUB pays the City 3 percent of gross revenues of the System on a monthly basis. Such City fees, which are recorded as non-operating expenses, totaled \$1,284,639 and \$1,366,032 for the years ended September 30, 2020 and 2019, respectively. At September 30, 2020 and 2019, amounts due to the City by KPUB totaled \$125,685 and \$131,242, respectively.

The KPUB Trustees and the Kerrville City Council approved a loan from KPUB to the City to support the construction of an effluent water retention pond project. The loan has a principal amount of \$7,500,000, a ten-year repayment term with the first three years being interest only payments, and a 2.40 percent stated interest rate. The maturity date is August 1, 2029. Security for payment is the revenue of the City's water and wastewater systems with a perfected lien pursuant to Chapter 1208, as amended, Texas Government Code. During the year ended September 30, 2018 the City and KPUB agreed to extend the interest only period three more years with principal payments beginning on February 1, 2023.

The KPUB Trustees and the Kerrville City Council approved a loan from KPUB to the City to support an economic development project. The loan has a principal amount of \$1,000,000, a four year repayment term with the first three and one half years being interest only payments, and a 2.00 percent stated interest rate. The maturity date is September 15, 2024.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

A schedule of the note maturities and future interest payments as of September 30, 2020, is as follows:

Fiscal Year Ending	Principal	Interest	Total
2021	\$	\$ 200,000	\$ 200,000
2022		200,000	200,000
2023	1,071,429	193,571	1,265,000
2024	2,071,429	167,857	2,239,286
2025	1,071,429	122,143	1,193,572
2026-2029	4,285,713	231,429	4,517,142
	<u>\$ 8,500,000</u>	<u>\$ 1,115,000</u>	<u>\$ 9,615,000</u>

6. Purchased Power Contract

KPUB currently receives most of its electric energy and capacity from CPS pursuant to a PPA which became effective on June 25, 2016, and expires on December 31, 2023. Under this contract, KPUB will receive 10-15 MW of base load energy and its entire load following energy from CPS Energy. KPUB also receives 20 MW of base load energy pursuant to a PPA with NextEra Energy Power Marketing, LLC (NEPM) which became effective on June 25, 2016, and expires on June 30, 2028. KPUB executed a PPA with the City of Garland, Texas, for 20 MW of wind power from the Salt Fork Wind Project in Gray County, Texas, on July 13, 2015. The agreement commences on the Commercial Operation Date of the Project which was November 15, 2016, and expires 14 years later. KPUB has also executed a PPA with the City of Garland, Texas, for 15 MW of power from the Albercas Wind Project in Webb County, Texas, on December 15, 2015. The agreement commenced on the Commercial Operation Date of the Project in 2015 and expires 20 years later. These wind PPAs will be used as fuel and environmental hedges.

7. Net Pension Liability - TMRS

Plan Description

KPUB participates as one of 888 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.tmr.com.

All eligible employees of KPUB are required to participate in TMRS.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the KPUB, 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 entity-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 75.00% of the member’s deposits and interest.

Currently KPUB has adopted the following provisions related to the pension plan:

	<u>December 31, 2019 and 2018</u>
Employee Deposit Rate	7.00%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Requirement Eligibility (Expressed as Age / Years of Service)	60/5,0/25
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to Retirees)	70% of CPI Repeating

Employees Covered by Benefit Terms

At the December 31, 2019 and 2018 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2019</u>	<u>2018</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	41	39
Inactive Employees Entitled to but not Yet Receiving Benefits	29	30
Active Employees	<u>53</u>	<u>53</u>
Total Plan Employees	<u><u>123</u></u>	<u><u>122</u></u>

Contributions

The contribution rates for employees in TMRS are either 5.00%, 6.00%, or 7.00% of employee gross earnings, and KPUB matching percentages are either 100.00%, 150.00%, or 200.00%, both as adopted by the governing body of KPUB. Under the state law governing TMRS, the contribution rate for each entity 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.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Employees for KPUB were required to contribute 7.00% of their annual gross earnings during the fiscal year. The required contribution rates for KPUB were 12.04% and 12.46% in calendar years 2019 and 2018, respectively. KPUB's contributions to TMRS for the calendar year ended December 31, 2019 and 2018 were \$558,073 and \$542,527, and were more than the required contribution rate.

Net Pension Liability

KPUB's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

Inflation	2.50% Per Year
Overall Payroll Growth	2.75% Per Year
Investment Rate of Return	6.75%, Net of Pension Plan Investment Expense, Including Inflation
Amortization Period	26 Years

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2109 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

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

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

The target allocation and best estimates of arithmetic real rates of return for each major asset class as December 31, 2019 and 2018 are summarized in the following tables:

December 31, 2019		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%

December 31, 2018		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.30%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.39%
Real Return	10.00%	3.78%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.56%
Private Equity	5.00%	7.75%

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75% for the years ended December 31, 2019 and 2018. 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.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance 12/31/2017	\$ 26,954,727	\$ 25,882,194	\$ 1,072,533
Service Cost	615,347		615,347
Interest (on the Total Pension Liability)	1,805,527		1,805,527
Difference Between Expected and Actual Experience	(169,108)		(169,108)
Contributions - Employee		272,968	(272,968)
Contributions - Employer		542,527	(542,527)
Net Investment Income		(775,398)	775,398
Benefit Payments	(1,027,706)	(1,027,706)	
Administrative Expense		(14,984)	14,984
Other		(783)	783
	<hr/>	<hr/>	<hr/>
Balance 12/31/2018	\$ 28,178,787	\$ 24,878,818	\$ 3,299,969
Service Cost	635,605		635,605
Interest (on the Total Pension Liability)	1,888,697		1,888,697
Difference Between Expected and Actual Experience	(6,158)		(6,158)
Changes of assumptions	(2,821)		(2,821)
Contributions - Employee		282,671	(282,671)
Contributions - Employer		558,073	(558,073)
Net Investment Income		3,846,678	(3,846,678)
Benefit Payments	(1,031,788)	(1,031,788)	
Administrative Expense		(21,733)	21,733
Other		(653)	653
	<hr/>	<hr/>	<hr/>
Balance 12/31/2019	<u>\$ 29,662,322</u>	<u>\$ 28,512,066</u>	<u>\$ 1,150,256</u>

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

The following presents the net pension liability of KPUB, calculated using the discount rate of 6.75%, as well as what KPUB'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:

2019		
1% Decrease	Current Rate Assumption	1% Increase
\$ 5,439,179	\$ 1,150,256	\$ (2,365,114)
2018		
1% Decrease	Current Rate Assumption	1% Increase
\$ 7,362,581	\$ 3,299,969	\$ (27,951)

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2020 and 2019, the KPUB recognized pension expense of \$519,777 and \$890,426, respectively, and calculated as shown below:

	2020	2019
Total Service Cost	\$ 635,605	\$ 615,347
Interest on the Total Pension Liability	1,888,697	1,805,527
Employee Contributions (Reduction of Expense)	(282,671)	(272,968)
Projected Earnings on Plan Investments (Reduction of Expense)	(1,679,320)	(1,747,048)
Administrative Expense	21,733	14,984
Other Changes in Fiduciary Net Position	653	783
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	(106,068)	(52,392)
Recognition of Current Year Outflow (Inflow) of Resources-Assets	41,148	526,193
Total Pension Expense	<u>\$ 519,777</u>	<u>\$ 890,426</u>

At September 30, 2020, KPUB reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2020			
Deferred Outflows and Inflows of Resources - Pension Plan	Plan Year	Amount	Remaining Period (Years)
Differences Between Projected and Actual Investment Earnings	2016	\$ (291)	1.000
Differences Between Projected and Actual Investment Earnings	2017	(647,893)	2.000
Differences Between Projected and Actual Investment Earnings	2018	1,513,469	3.000
Differences Between Projected and Actual Investment Earnings	2019	(1,733,886)	4.000
Differences Between Expected and Actual Economic Experience	2016	(49,748)	0.630
Differences Between Expected and Actual Economic Experience	2017	(6,261)	1.170
Differences Between Expected and Actual Economic Experience	2018	(85,392)	2.040
Differences Between Expected and Actual Economic Experience	2019	(4,550)	2.830
Changes in Assumptions	2019	(2,084)	2.830
Total Deferred Outflows and Inflows of Resources		<u>\$ (1,016,636)</u>	

Deferred outflows of resources in the amount of \$412,543 and \$387,610 related to pensions resulting from contributions subsequent to the measurement date were recognized for the years ending September 30, 2020 and 2019, and will be amortized fully in the next fiscal year.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year	Amortization of Deferred Outflows
2020	\$ (352,525)
2021	(298,040)
2022	67,399
2023	(433,470)
	<u>\$ (1,016,636)</u>

8. Total OPEB Liability - TMRS

Plan Description:

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan.

The member entity contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees’ entire careers.

Benefits Provided:

The plan provides a \$7,500 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the SDBF. The OPEB benefit is a fixed \$7,500 lump-sum benefit and no future increases are assumed in the benefit amount.

The SDBF fund does not meet the requirements of a trust under Paragraph 4b of GASBS No. 75, as the assets of the SDBF can be used to pay active SDBF benefits which are not part of the OPEB plan. The contributions for retiree SDBF coverage are assigned to the OPEB plan under GASBS No. 75 and are used to determine the benefit payments shown in the changes in the total OPEB liability.

Benefit terms are established under the TMRS Act. Participation in the retiree SDBF is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year. KPUB’s contribution rate for the retiree SDBF program is calculated annually on an actuarial basis, and is equal to the cost of providing a one-year death benefit equal to \$7,500.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Employees Covered by Benefit Terms:

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2019</u>	<u>2018</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	37	34
Inactive Employees Entitled to but not Yet Receiving Benefits	19	20
Active Employees	<u>53</u>	<u>53</u>
Total Plan Employees	<u><u>109</u></u>	<u><u>107</u></u>

Total OPEB Liability:

KPUB’s total OPEB liability of \$295,219 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of Economic/Demographic Gains and Losses and Assumptions	Straight-Line Amortization over Expected Working Life
Inflation	2.5%
Salary Increases	3.50% to 11.5% including inflation
Discount Rate	3.71% for 2018 and 2.75% for 2019
Retirees’ Share of Benefit-Related Costs	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
 Mortality rates – Service Retirees	 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
 Mortality rates – Disabled Retirees	 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASBS No. 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 2.75% based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2019.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Annuity Purchase Rates:

Annuity purchase rates are used to determine the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027 the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

Experience Studies:

Actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) until 2027 are based on a mortality study performed in 2013. TMRS uses the experience studies as a basis for determining assumptions, except where required to be treated different by GASB 75.

Changes in the Total OPEB Liability:

Balance as of December 31, 2017	\$	236,491
Changes for the year:		
Service Cost		6,629
Interest on Total OPEB Liability		7,918
Effect of Economic/Demographic Experience		1,880
Effect of Assumptions Changes or Inputs		(17,158)
Benefit Payments		<u>(1,170)</u>
Balance as of December 31, 2018	\$	234,590
Changes for the year:		
Service Cost		6,057
Interest on Total OPEB Liability		8,786
Effect of Economic/Demographic Experience		(1,294)
Effect of Assumptions Changes or Inputs		48,695
Benefit Payments		<u>(1,615)</u>
Balance as of December 31, 2019	\$	<u><u>295,219</u></u>

Changes of assumptions or other inputs reflect a change in the discount rate from year to year.

There were no changes of benefit terms that affected measurement during the measurement period.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Sensitivity Analysis:

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 3.71% and 2.75%, 2018 and 2019, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.71% and 1.75%) or 1 percentage point higher (4.71% and (3.75%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	2019		
	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
Total OPEB Liability	\$ 357,078	\$ 295,219	\$ 246,851

	2018		
	1% Decrease in Discount Rate (2.71%)	Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
Total OPEB Liability	\$ 280,817	\$ 234,590	\$ 198,215

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the year ended September 30, 2020, KPUB recognized OPEB expense of \$26,506. At September 30, 2020, KPUB reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	\$ 34,420	\$
Differences Between Expected and Actual Economic Experience	67	
	\$ 34,487	\$ 0

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB benefits will be recognized in OPEB expense as follows:

	OPEB Expense Amount
2020	\$ 11,663
2021	10,061
2022	8,850
2023	3,913
	\$ 34,487

Deferred Outflows of Resources related to employer contributions subsequent to the measurement date in the amount of \$1,240 will be fully amortized in the next year.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

9. Disclosures about the Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

KPUB categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

KPUB has the following recurring fair value measurements as of September 30, 2020 and 2019:

Investments in LOGIC of \$2,478,826 and \$10,064,217 as of September 30, 2020 and 2019, respectively, are valued using NAV, which are excluded from the hierarchy.

The valuation method for investments measured at NAV per share (or its equivalent) is presented below.

<u>Fair Value Notice</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Period</u>
September 30, 2020 LOGIC \$2,478,826	None	Daily	Daily
September 30, 2019 LOGIC \$10,064,217	None	Daily	Daily

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

10. Deferred Compensation Plan

KPUB offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. KPUB's Deferred Compensation Plan is administered by a trustee. KPUB does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees' contributions to the trustee. Accordingly, KPUB has not presented the assets and liabilities from the Deferred Compensation Plan in these basic financial statements. KPUB's Deferred Compensation Plan investments are chosen by the individual (employee) participant and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these. KPUB's Deferred Compensation Plan, available to all permanent employees, permits them to defer until future years up to \$19,000. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

11. Litigation and Commitments

There is no litigation pending against or involving KPUB, which would have a material impact on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

KERRVILLE PUBLIC UTILITY BOARD
DEFINED BENEFIT RETIREMENT PLAN

RSI 1

SCHEDULE OF CHANGES IN THE PLAN'S NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
	<u>Total Pension Liability</u>	<u>Total Pension Liability</u>	<u>Total Pension Liability</u>	<u>Total Pension Liability</u>	<u>Total Pension Liability</u>	<u>Total Pension Liability</u>
Service Cost	\$ 553,679	\$ 673,011	\$ 647,310	\$ 638,277	\$ 615,347	\$ 635,605
Interest	1,474,035	1,588,966	1,643,216	1,711,786	1,805,527	1,888,697
Benefit Payments	(526,824)	(745,186)	(981,761)	(827,347)	(1,027,706)	(1,031,788)
Differences between Expected and Actual Experience	190,503	119,729	(365,600)	(22,320)	(169,108)	(6,158)
Changes in Assumptions		139,038				(2,821)
Net Change	\$ 1,691,393	\$ 1,775,558	\$ 943,165	\$ 1,500,396	\$ 1,224,060	\$ 1,483,535
Beginning Balance	21,044,215	22,735,608	24,511,166	25,454,331	26,954,727	28,178,787
Ending Balance	\$ 22,735,608	\$ 24,511,166	\$ 25,454,331	\$ 26,954,727	\$ 28,178,787	\$ 29,662,322
	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>
Employer Contributions	\$ 437,344	\$ 513,580	\$ 473,838	\$ 512,666	\$ 542,527	\$ 558,073
Employee Contributions	270,204	304,924	281,090	279,946	272,968	282,671
Net Investment Income	1,153,226	31,695	1,457,035	3,157,178	(775,398)	3,846,678
Benefit Payments	(526,824)	(745,186)	(981,761)	(827,347)	(1,027,706)	(1,031,788)
Administration Expenses	(12,040)	(19,305)	(16,459)	(16,360)	(14,984)	(21,733)
Other	(990)	(953)	(887)	(829)	(783)	(653)
Net Change	\$ 1,320,920	\$ 84,755	\$ 1,212,856	\$ 3,105,254	\$ (1,003,376)	\$ 3,633,248
Beginning Balance	20,158,409	21,479,329	21,564,084	22,776,940	25,882,194	24,878,818
Ending Balance	\$ 21,479,329	\$ 21,564,084	\$ 22,776,940	\$ 25,882,194	\$ 24,878,818	\$ 28,512,066
Net Pension Liability	\$ 1,256,279	\$ 2,947,082	\$ 2,677,391	\$ 1,072,533	\$ 3,299,969	\$ 1,150,256
Fiduciary Net Position as a Percentage of Total Pension Liability	94.47%	87.98%	89.48%	96.02%	88.29%	96.12%
Covered Payroll	\$ 3,860,050	\$ 4,356,061	\$ 4,015,570	\$ 3,999,227	\$ 3,899,540	\$ 4,038,153
Net Pension Liability as a Percentage of Covered Payroll	32.55%	67.65%	66.68%	26.82%	84.62%	28.48%

Note: Only six years of GASB 68 Data Available as of 12/31/2019. The remaining four years of data will be built on a go forward basis.

**KERRVILLE PUBLIC UTILITY BOARD
DEFINED BENEFIT RETIREMENT PLAN**

RSI 2

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>	<u>9/30/2019</u>	<u>9/30/2020</u>
Actuarially Determined Contribution	\$ 486,427	\$ 478,030	\$ 496,124	\$ 537,357	\$ 558,424	\$ 509,068
Actual Contributions	<u>486,427</u>	<u>478,030</u>	<u>496,124</u>	<u>537,357</u>	<u>558,424</u>	<u>583,931</u>
Excess Contribution	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (74,863)</u>
Covered Payroll	\$ 4,165,019	\$ 4,052,120	\$ 4,020,268	\$ 3,919,181	\$ 4,012,557	\$ 4,223,025
Contributions as a Percentage of Covered Payroll	11.68%	11.80%	12.34%	13.71%	13.92%	13.83%

Note: Only six years of GASB 68 Data Available as of 09/30/2020. The remaining four years of data will be built on a go forward basis.

KERRVILLE PUBLIC UTILITY BOARD
SUPPLEMENTAL DEATH BENEFIT FUND

RSI 3

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
	Total OPEB Liability	Total OPEB Liability	Total OPEB Liability
Service Cost	\$ 5,999	\$ 6,629	\$ 6,057
Interest	7,837	7,918	8,786
Benefit Payments	(1,200)	(1,170)	(1,615)
Differences between Expected and Actual Experience		1,880	(1,294)
Changes in Assumptions	<u>18,923</u>	<u>(17,158)</u>	<u>48,695</u>
Net Change	\$ 31,559	\$ (1,901)	\$ 60,629
Beginning Balance	<u>204,932</u>	<u>236,491</u>	<u>234,590</u>
Ending Balance	\$ <u>236,491</u>	\$ <u>234,590</u>	\$ <u>295,219</u>
Net OPEB Liability	\$ <u><u>236,491</u></u>	\$ <u><u>234,590</u></u>	\$ <u><u>295,219</u></u>
Covered Payroll	\$ 3,999,227	\$ 3,899,540	\$ 4,038,153
Total OPEB Liability as a Percentage of Covered Payroll	5.91%	6.02%	7.31%

Note: Only three years of GASB 75 Data Available as of 12/31/2019. The remaining seven years of data will be built on a go forward basis.

KERRVILLE PUBLIC UTILITY BOARD

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	26 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% 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 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Changes in Assumptions: There were assumption changes during the year.

Benefits Changes: There were no benefit changes during the year.