



KERRVILLE PUBLIC UTILITY BOARD

A COMPONENT UNIT OF THE CITY OF KERRVILLE, TEXAS

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2022 and 2021**

**KERRVILLE PUBLIC UTILITY BOARD
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

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INTRODUCTORY SECTION



Letter of Transmittal

December 6, 2023

Mr. Chairman and Members of the Board of Trustees,

The Annual Comprehensive Financial Report of Kerrville Public Utility Board (KPUB) for the fiscal years ended September 30, 2022 and 2021, is hereby submitted. The purpose of the report is to provide the Board of Trustees, management, the public and other interested parties with information regarding KPUB's financial condition.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. As management, we affirm that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Pursuant to the 2013 Utility System Revenue Bonds Ordinance, KPUB is required to have an annual audit of the books and accounts relating to the system and the pledged revenues of the system. The audit is to be performed by an independent certified public accountant or an independent firm of certified public accountants selected by the Board of Trustees. Accordingly, Bolinger, Segars, Gilbert & Moss, LLP, Certified Public Accountants has performed a financial audit and their report is included in this document.

Bolinger, Segars, Gilbert & Moss, LLP has issued unmodified opinions on the KPUB's financial statements for the years ended September 30, 2022 and 2021. The goal of the independent audit is to provide reasonable assurance that KPUB's financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinions on the KPUB's financial statements for the fiscal years ended September 30, 2022 and 2021, and that the financial statements are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Also included in the financial section is management's discussion and analysis (MD&A), which provides users of the basic financial statements a narrative introduction, overview and analysis to accompany the basic financial statements. The basic financial statements, including the accompanying notes, represent the core of the financial section. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it.

Profile of the Utility

The Kerrville Public Utility Board functions as an agent for the City of Kerrville (City) in operating the electric utility system. KPUB began operations on December 10, 1987, under a five-member Board of Trustees which is authorized to operate and maintain the electric system. This Board is organized pursuant to Article 1115, Revised Civil Statutes of Texas, repealed and now codified as Section 1502.070, as amended, Texas Government Code and was officially empowered through the action of the Kerrville City Council. Since KPUB operates autonomously from the City, all accounts, financial, and statistical information relating to the electric utility are included herein. KPUB, a component unit, is included in the City of Kerrville's Annual Comprehensive Financial Report.

KPUB services an area of approximately 146 square miles within Kerr County, Texas. The size of the system with respect to customers served and units of electricity sold has increased slowly but steadily since the system began operation in 1987. As of September 30, 2022, KPUB served 23,927 customer accounts, selling 521 million kilowatt hours of electricity in fiscal year 2022 (FY2022).

Winter Storm Uri

In February 2021, Winter Storm Uri brought snow, ice and sustained historically cold temperatures to Texas, resulting in ERCOT mandated power outages and system failures across the state's electrical grid. KPUB's customers, in addition to approximately 4.5 million other Texans, lost power for extended periods of time. Natural gas prices soared from \$3 per MMBtu to \$400 per MMBtu, causing significant and unexpected costs for KPUB.

Litigation regarding purchased power cost for February is ongoing as of the date of the attached audit report. The final outcome of the litigation will impact KPUB's financial position and could result in the need to borrow funds. Any additional costs will be spread to KPUB customers over a period of time. KPUB is committed to providing customers with competitively priced electricity and management is confident that KPUB can maintain competitive rates despite this unprecedented event.

Thankfully, KPUB's equipment and systems sustained very little damage during the storm. Minor repairs did not create any significant financial impact. In addition, legislative and regulatory efforts requiring better weatherization for Texas's electrical system have not created additional expense for KPUB.

Local Economy

KPUB serves the incorporated cities of Kerrville and Ingram, the unincorporated towns of Center Point and Hunt, and certain outlying regions in Kerr County, Texas. According the 2020 census, Kerrville's population is 24,278 and Kerr County has a population of 52,598. Both have shown slow growth of less than 1% per year since the 2010 census.

Kerr County supports a diverse economy. Major industry segments in the area include healthcare, tourism, retail, manufacturing, camps and retreats, education, building trades, retirement, ranching, and services. Kerrville is home to Schreiner University. With an enrollment of almost 1,500 students, Schreiner continues to expand, recently adding an engineering degree, announcing the addition of a football program and securing a \$5 million STEM grant for Hispanic Serving Institutions from the U.S. Department of Education.

Healthcare is the largest employer in the area with thousands of jobs across three hospitals (Peterson Regional Medical Center, Kerrville State Hospital and the Kerrville Veteran's Administration Medical Center), plus numerous assisted and full care facilities, home health, physician offices and clinics. Peterson Health and the Kerrville State Hospital are both currently in the process of building additional facilities that will employ more people and serve more patients.

The hospitality industry, including tourism, youth camps, retreat facilities, seasonal visitors and hunting, represents another major segment of the area's economy. The camping industry, dating back to 1921, is a year-round fixture in the area, but ramps up during the summer months when camps are in session. Additionally, tourists come to the Texas Hill Country for its outdoor beauty, hunting, fishing and other outdoor activities.

The area's moderate climate, comparatively low cost of living, excellent healthcare services, low crime rate and numerous arts and cultural opportunities have contributed to the ongoing migration of retirees to the area. The retirees provide a strong, stable economic base and active community involvement.

Kerr County's unemployment rate remains low at 3.4% as of September 2022.

Long-term Financial Planning

The KPUB Board of Trustees is committed to excellence in financial management. Accordingly, KPUB's long-term financial planning includes:

- Five Year Forecast – the annual budget process includes a five-year forecast for both operations and capital expenditures. This forecast is updated and reviewed by the Board each year during the budget process.
- Days Cash on Hand – In May 2012, the Board approved a minimum level of 120 days for this metric. The policy defined Days Cash on Hand as the unrestricted cash and investments being held by KPUB, divided by the operating expenses, less depreciation, times the number of days elapsed in the current fiscal year. The days cash on hand at September 30, 2022 was 253.
- Board designated funds – The Board has designated funds for construction, rate stabilization, interest and sinking and emergency, repair, replacement and contingency. Balances in each fund are reviewed by the Board monthly. Setting aside these funds helps to ensure future stability and protection from catastrophic events. The balance in these funds as of September 30, 2022 is as follows:

Construction: \$ 1,462,120

Rate Stabilization Funds: \$ 3,011,726

Interest and Sinking: \$ 434,802

Emergency, Repair, Replacement & Contingency: \$ 3,585,091

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Kerrville Public Utility Board for its annual comprehensive financial report for the fiscal year ended September 30, 2021. This was the twenty-ninth consecutive year that KPUB has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current annual report continues to meet the Certificate of Achievement Program's requirements and plan to submit an award application to GFOA for consideration.

The preparation of this report could not be accomplished without the dedicated service of the entire staff of the Finance Department. We express appreciation to KPUB employees throughout the organization, especially those responsible for the maintenance of records, upon which this report is based. In addition, we acknowledge and appreciate the audit professionals from Bolinger, Sears, Gilbert & Moss, LLP, Certified Public Accountants, for their dedicated assistance and input into the preparation of this report.

Finally, we would like to thank the members of the Board of Trustees for their support and interest in planning and conducting the financial operations of KPUB in a responsible and progressive manner. The Board's consistent support and leadership serves the public well in guiding KPUB to its present state of fiscal and operational health.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mike Wittler".

Mike Wittler, PE
General Manager/CEO

A handwritten signature in black ink, appearing to read "Amy Dozier".

Amy Dozier, CPA
Director of Finance



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Kerrville Public Utility Board
Texas**

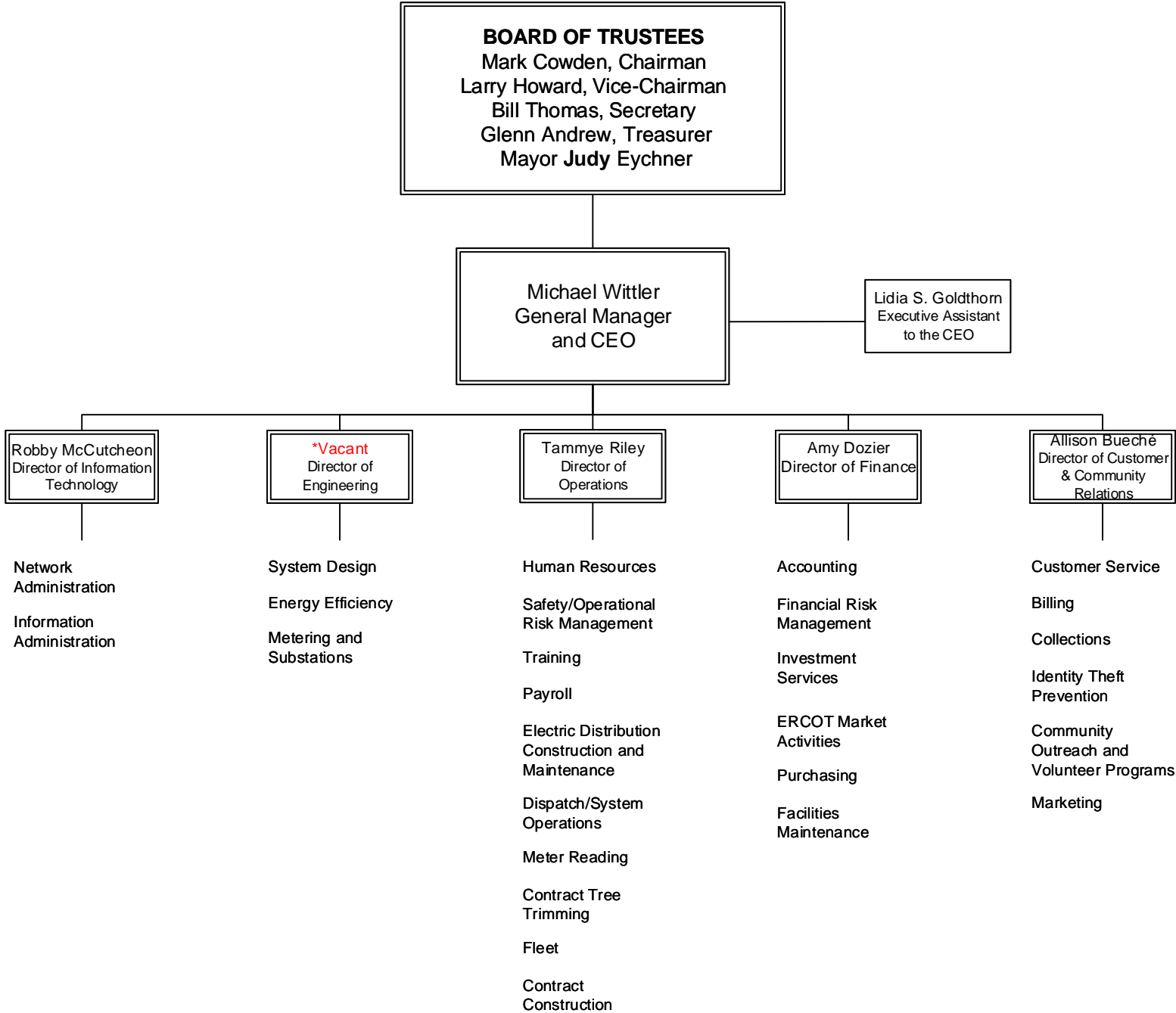
For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

September 30, 2021

Christopher P. Morill

Executive Director/CEO

Kerrville Public Utility Board
2022 Organizational Chart

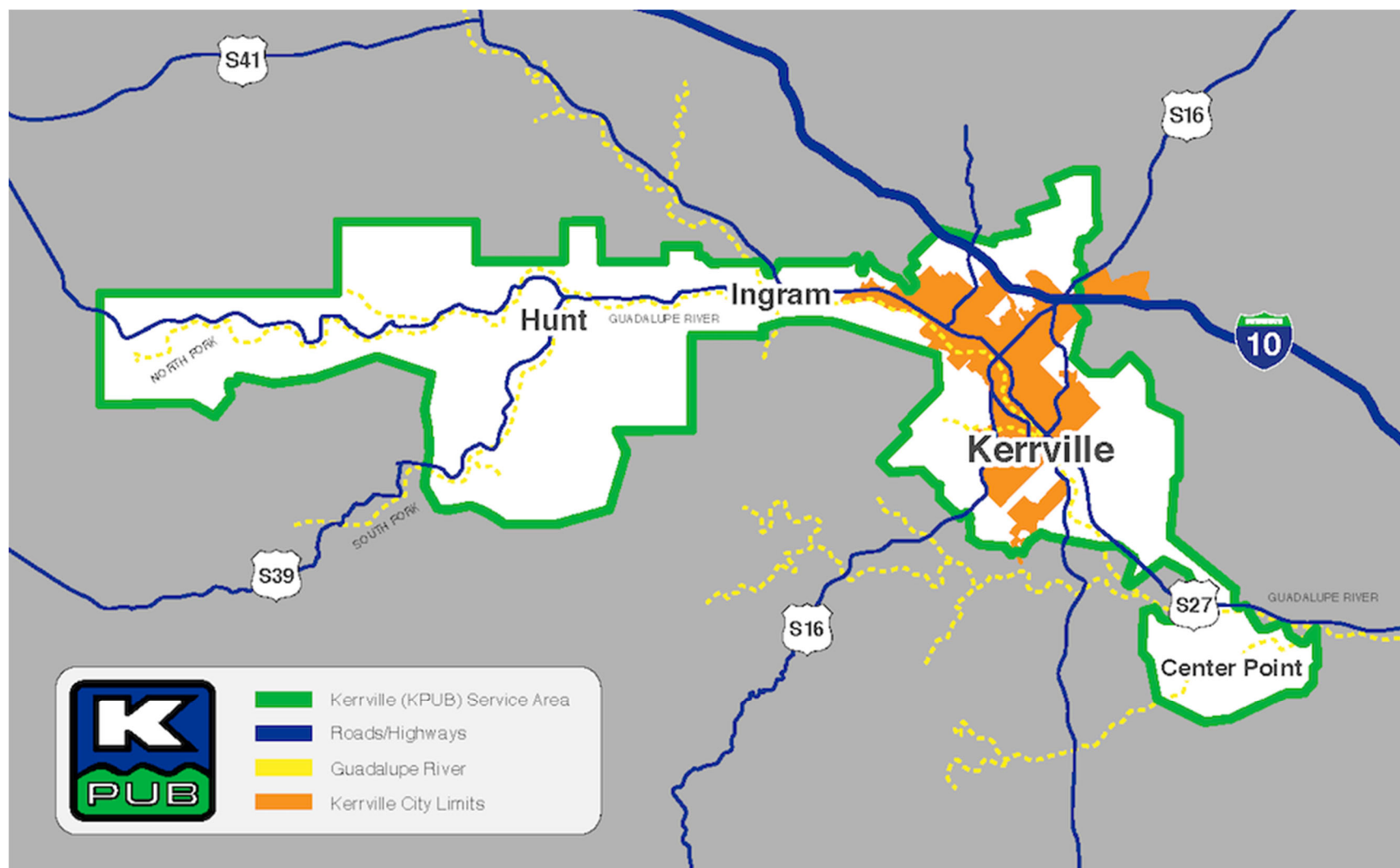


KERRVILLE PUBLIC UTILITY BOARD

BOARD OF TRUSTEES AS OF SEPTEMBER 30, 2022

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>
Mark Cowden	Chairman	April 21, 2024
Larry Howard	Vice-Chairman	April 21, 2025
Bill Thomas	Secretary	April 21, 2026
Glenn Andrew	Treasurer	April 21, 2027
Judy Eychner	Mayor	May 2024

KERRVILLE PUBLIC UTILITY BOARD
SERVICE AREA





FINANCIAL SECTION

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

Opinions

We have audited the accompanying financial statements of Kerrville Public Utility Board, a component unit of the City of Kerrville, Texas, as of and for the years ended September 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Kerrville Public Utility Board's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kerrville Public Utility Board, a component unit of the City of Kerrville, Texas, as of September 30, 2022 and 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Kerrville Public Utility Board, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kerrville Public Utility Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kerrville Public Utility Board's, a component unit of the City of Kerrville, Texas, internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Kerrville Public Utility Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

December 6, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of 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, 2022 (FY2022) and 2021 (FY2021). We encourage readers to consider the information presented herein in conjunction with additional information that we have furnished in our letter of transmittal and the accompanying basic financial statements and notes. This discussion and analysis is designed to focus on current activities and resulting changes in financial position.

Financial Highlights for FY2022

- KPUB's net position increased by \$1,849,625.
- Operating revenue increased due to a combination of higher rates and increased kWh sales. Rates were higher due to increased purchased power costs and kWh sales increased due mostly to excessive heat in FY2022.
- Operating expense increased primarily due to both the quantity and unit cost of purchased power. The quantity purchased was higher due to customer demand. The unit price increased primarily due to higher natural gas prices globally following Russia's invasion of Ukraine.
- As of September 30, 2022, KPUB's total net position was \$73,973,703. The unrestricted net position increased \$552,689 to \$27,989,516. The unrestricted portion equates to 37.8% of total net position and 64.0% of operating expenses.
- KPUB's pension plan increased its funded ratio from 97.5% to 102.0%.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to KPUB's financial statements. This report includes financial statements, notes to financial statements and supplementary information intended to furnish additional detail and support.

Financial Statements. The *statement of net position* presents information on KPUB's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of KPUB is improving or deteriorating.

The net position is divided into the following three categories: 1) net investment in capital assets, 2) restricted for debt service and 3) unrestricted. Based upon the liquidity of each, assets are categorized as either current or noncurrent. Noncurrent assets include cash, cash equivalents 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 an advance to the City of Kerrville, capital assets and net pension asset in FY2022. Liabilities are categorized into current and noncurrent liabilities, with noncurrent liabilities including items such as long-term debt and KPUB's net pension liability in FY2021.

The *statement of revenues, expenses and changes in fund net position* presents 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 to be used 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* presents 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.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the financial statements. The notes to the financial statements can be found following Exhibit C in the Financial Section of this report.

Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning KPUB's progress in funding its obligations to provide pension and other post-employment benefits (OPEB) to its employees. Required supplementary information can be found immediately after the notes to the financial statements in the Financial Section of this report.

Major Transactions and Events

Winter Storm Uri. In February 2021, Winter Storm Uri brought snow, ice and sustained historically cold temperatures to Texas, resulting in ERCOT mandated load curtailments and system failures across the state's electrical grid. KPUB's customers, in addition to approximately 4.5 million other Texans, lost power for extended periods of time. Natural gas prices soared from \$3 per MMBtu to \$400 per MMBtu.

Litigation regarding purchased power cost for February 2021 is ongoing as of the date of the attached audit report. Accordingly, KPUB's FY2022 financial statements contain an estimate for power cost payable related to February 2021. Any difference between estimated and actual costs will be recorded in future periods pending the outcome of litigation.

Retail Rates and Future Adjustments. KPUB's billed rate remained stable at 9.5 cents per kWh (residential rate based on 1,000 kWh usage) for all of FY2022. Due to increasing power supply costs, KPUB's billed rate was increased to 10.25 cents per kWh in November 2022. This rate remains well below the state average of 13.93 cents and the national average of 15.95 per kWh.

Financial Analysis

The following is a summary of the statement of revenues, expenses and changes in fund net position to be used in conjunction with the comparative analysis below:

	SUMMARIZED SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30,		
	2022	2021	2020
OPERATING REVENUES			
Sales of Electricity	\$ 45,505,227	\$ 42,062,193	\$ 41,282,893
Other	682,023	640,139	390,085
Total Operating Revenue	<u>\$ 46,187,250</u>	<u>\$ 42,702,332</u>	<u>\$ 41,672,978</u>
OPERATING EXPENSES			
Purchased Power	\$ 31,668,574	\$ 28,344,931	\$ 27,568,854
Distribution	3,684,455	3,019,635	3,334,014
Administration	4,615,974	4,546,610	4,784,427
Depreciation	3,754,334	3,556,200	3,432,186
Total Operating Expenses	<u>\$ 43,723,337</u>	<u>\$ 39,467,376</u>	<u>\$ 39,119,481</u>
OPERATING INCOME	<u>\$ 2,463,913</u>	<u>\$ 3,234,956</u>	<u>\$ 2,553,497</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	\$ 481,427	\$ 264,205	\$ 463,863
Interest Expense	(119,496)	(121,087)	(103,015)
Payments to City of Kerrville	(1,428,744)	(1,301,895)	(1,305,091)
Other	31,471	(19,179)	4,576
Total Non-Operating Revenues (Expenses)	<u>\$ (1,035,342)</u>	<u>\$ (1,177,956)</u>	<u>\$ (939,667)</u>
INCOME BEFORE CONTRIBUTIONS	<u>\$ 1,428,571</u>	<u>\$ 2,057,000</u>	<u>\$ 1,613,830</u>
Capital Contributions	421,054	215,638	279,482
CHANGE IN NET POSITION	<u>\$ 1,849,625</u>	<u>\$ 2,272,638</u>	<u>\$ 1,893,312</u>
NET POSITION, BEGINNING OF YEAR	72,124,078	69,843,094	67,949,782
PRIOR PERIOD ADJUSTMENT, SEE NOTES	-	8,346	-
NET POSITION, BEGINNING OF YEAR - RESTATED	<u>72,124,078</u>	<u>69,851,440</u>	<u>67,949,782</u>
NET POSITION, END OF YEAR	<u><u>\$ 73,973,703</u></u>	<u><u>\$ 72,124,078</u></u>	<u><u>\$ 69,843,094</u></u>

Revenues and Expenses Comparison of Fiscal Years 2022 and 2021

Operating revenues increased \$3,484,918 or 8.2% from the prior year due to a combination of higher unit costs for purchased power that are passed along to the customer through the variable portion of rate and an increase in kilowatt hours sales mostly caused by excessive heat in the summer.

Operating expenses also increased compared to the prior year. The \$4,255,961 or 10.8% increase was driven by a \$3,323,643 increase in purchased power, a \$664,820 increase in distribution, and smaller increases in other categories. As previously discussed, purchased power expense increased due to a larger quantity purchased and as well as higher unit costs. Distribution expenses increased as vacant positions were filled and personnel, maintenance and supply costs were impacted by inflation.

Net non-operating expenses decreased by \$142,614 compared to the previous year. The decrease was mostly due to a \$217,222 increase in investment income resulting from higher interest rates beginning in March 2022 when the Federal Reserve began raising interest rates to combat inflation.

These factors combined to result in an increase in net position of \$1,849,625 for FY2022, compared to \$2,272,638 for the prior period. Total net position as of September 30, 2022, was \$73,973,703 as compared to \$72,124,078 as of September 30, 2021.

Revenues and Expenses Comparison of Fiscal Years 2021 and 2020

Operating revenue increased \$1,029,354 or 2.5% more than the prior year due primarily to higher rates caused by increased power supply costs that are passed along to the customer through the variable portion of KPUB's utility rate, the power cost adjustment factor. Number of kilowatt hours sold was flat compared to FY2020.

Operating expense increased slightly compared to the prior year. The \$347,895 increase was caused mainly by a \$776,077 increase in purchased power offset by decreases in distribution and administrative expense. Distribution expenses decreased mostly due to staffing vacancies. Administrative expense decreased primarily due to a large credit adjustment to pension expense caused by better than anticipated investment returns.

Net non-operating expenses increased by \$238,289 compared to the previous year. The increase was mostly due to a \$199,658 decrease in investment income resulting from the low interest rate environment that persisted for the entire fiscal year.

These factors combined to result in an increase in net position of \$2,272,638 for FY2021, compared to \$1,893,312 for the prior period. After a prior period adjustment to restate the financial statements for the impact of adopting GASB No. 87, *Leases*, total net position as of September 30, 2021, was \$72,124,078 as compared to \$69,843,094 as of September 30, 2020.

The following is a summary of the statement of net position to be used in conjunction with the comparative analysis below:

	SUMMARY SCHEDULES OF NET POSITION		
	September 30,		
	2022	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets	\$ 33,788,201	\$ 31,024,007	\$ 21,286,146
Noncurrent Assets			
Capital and Right to Use Assets - net	\$ 48,989,539	\$ 48,128,386	\$ 47,632,243
Net Pension Asset	677,020	-	-
Other Noncurrent Assets	11,983,042	11,969,198	12,981,508
Total Noncurrent Assets	\$ 61,649,601	\$ 60,097,584	\$ 60,613,751
Total Assets	\$ 95,437,802	\$ 91,121,591	\$ 81,899,897
Deferred Outflows of Resources	\$ 901,771	\$ 509,344	\$ 1,972,450
Total Assets and Deferred Outflows of Resources	<u>\$ 96,339,573</u>	<u>\$ 91,630,935</u>	<u>\$ 83,872,347</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current Liabilities	\$ 16,518,521	\$ 13,620,003	\$ 5,828,122
Noncurrent Liabilities	3,803,205	5,022,002	5,660,315
Total Liabilities	\$ 20,321,726	\$ 18,642,005	\$ 11,488,437
Deferred Inflows of Resources	\$ 2,044,144	\$ 864,852	\$ 2,540,816
Total Liabilities and Deferred Inflows of Resources	<u>\$ 22,365,870</u>	<u>\$ 19,506,857</u>	<u>\$ 14,029,253</u>
NET POSITION			
Net investment in Capital Assets	\$ 45,597,431	\$ 44,310,555	\$ 43,551,243
Restricted for Debt Service	386,756	376,696	367,619
Unrestricted	27,989,516	27,436,827	25,924,232
Total Net Position	<u>\$ 73,973,703</u>	<u>\$ 72,124,078</u>	<u>\$ 69,843,094</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 96,339,573</u>	<u>\$ 91,630,935</u>	<u>\$ 83,872,347</u>

Statement of Net Position Comparison of Fiscal Years 2022 and 2021

Total assets and deferred outflows of resources increased by \$4,708,638 from the previous year. Current assets increased by \$2,764,194 due to an increase in cash and investments held as KPUB awaits the outcome of pending litigation related Winter Storm Uri. Noncurrent assets increased by \$1,552,017 as what was previously a pension liability in FY2021 became a pension asset in FY2022 and capital spending increased KPUB's net utility plant investment.

Total liabilities and deferred inflows of resources increased \$2,859,013 from the previous year. Current liabilities increased by \$2,898,518 driven by increases in the over collection of power cost adjustment account as well as accounts payable for purchased power. The increase in current liabilities was offset by a decrease of \$1,218,797 in noncurrent liabilities due primarily to the pension reclass previously described.

Statement of Net Position Comparison of Fiscal Years 2021 and 2020

Total assets and deferred outflows of resources increased by \$7,758,588 from the previous year. The change was primarily due to pending litigation from Winter Storm Uri. A portion of February's power cost has not been paid for as of September 30, 2021, resulting in an increase in cash and investments and a corresponding increase in accounts payable.

Total noncurrent assets decreased by \$516,167 at the end of fiscal year 2021, primarily due to the early repayment of a \$1,000,000 advance receivable from the City of Kerrville offset by an increase of \$496,143 in net capital assets due to continued improvements and expansion.

Total liabilities and deferred inflows of resources at September 30, 2021, were \$19,506,857 compared to \$14,029,253 at September 30, 2020, with the increase of \$5,477,604 due in most part to the increase in current liabilities payable to purchased power providers previously described. The increase in current liabilities was offset by a decrease in noncurrent liabilities and deferred inflows primarily due to scheduled debt repayment and reductions in the actuarially calculated pension liability and related deferred inflows.

Capital Assets and Debt Administration

Capital Assets. In FY2022, KPUB's net investment in capital assets increased from \$48,128,386 to \$48,989,539 as of September 30, 2022. Major capital expenditures and construction projects in FY2022 included:

- Information Technology upgrades and equipment
- Building remodel
- Vehicle purchases
- Extensions and improvements to accommodate new development

In FY2021, KPUB's net investment in capital assets increased from \$47,632,243 to \$48,128,386 as of September 30, 2021. Major capital expenditures and construction projects in FY2021 included:

- Transformer and voltage additions in Hunt
- Underground infrastructure between Barker and Legion substations
- Electrical infrastructure for new Hal Peterson Middle School
- Fiber optic network installation
- Extensions and improvements to accommodate new development

See **Note 3. Capital Assets** for more detailed information about capital assets.

SUMMARY OF CAPITAL ASSETS NET OF DEPRECIATION

	September 30,		
	2022	2021	2020
Right to Use - Equipment	\$ 135,359	\$ 151,574	\$ -
Distribution System	40,005,530	39,304,013	37,195,586
Land, Buildings, and Equipment	2,831,234	3,002,188	2,721,658
Transportation Equipment	2,245,159	2,004,825	1,733,584
Other	1,937,495	1,722,609	1,594,601
Construction in Progress	1,834,762	1,943,177	4,386,814
Capital Assets-Net of Depreciation	<u>\$ 48,989,539</u>	<u>\$ 48,128,386</u>	<u>\$ 47,632,243</u>

Debt Administration. KPUB's debt service payments for FY2022 totaled \$531,325, which included a principal payment of \$411,000 and interest payments of \$120,325. Debt service coverage, calculated per the bond ordinance, was 10.59 times and 11.20 times for fiscal years 2022 and 2021, respectively. Each year well exceeds the minimum required coverage of 1.10 times. 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 November 1, 2028. The Bonds were issued at a net interest cost of 3.16% and a require minimum coverage factor of 1.10 times. Since the Bonds were sold to a local bank, the series was not rated by the rating services. More detailed information on long-term debt can be found in **Note 4. Long-Term Obligations**.

Considerations for FY2023

KPUB anticipates the following environment and events in FY2023 and has prepared its budget accordingly:

- Resolution to pending litigation related to Winter Storm Uri
- Increases in purchased power costs due primarily to increased natural gas prices
- Ongoing tasks related to securing a new purchased power agreement or extension to replace KPUB's agreement with CPS Energy that expires on December 31, 2023
- Continued inflation and supply chain issues related to inventory
- Potential slowdown in development projects due to rising interest rates
- Potential impact of an economic slowdown on bad debt and customer growth
- Continued low unemployment and challenges to recruit and retain employees
- Potential ERCOT changes, especially around reserve requirements

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:

Director of Finance
Kerrville Public Utility Board
2250 Memorial Blvd.
Kerrville, Texas, 78028



BASIC FINANCIAL STATEMENTS

**KERRVILLE PUBLIC UTILITY BOARD
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2022 AND 2021**

Exhibit A

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	September 30,	
	2022	2021
CURRENT ASSETS		
Cash	\$ 20,579,719	\$ 19,357,801
Investments	7,121,433	6,089,430
Accounts Receivable, Net of Allowances of \$38,185 and \$49,751 for 2022 and 2021, Respectively	1,911,733	1,543,527
Unbilled Revenue	2,143,899	2,167,313
Materials and Supplies, at average cost	1,135,750	955,314
Deposits with Other Entities	862,336	860,166
Other Current and Accrued Assets	33,331	50,456
TOTAL CURRENT ASSETS	\$ 33,788,201	\$ 31,024,007
NONCURRENT ASSETS		
Cash for:		
Customer Deposits	\$ 341,396	\$ 373,174
Interest and Sinking Fund	320,501	324,213
Cash subject to Governing Board Designation for:		
Emergency Repair, Replacement, and Contingency Fund	2,642,641	1,168,521
Other Investments Designated for:		
Customer Deposits	121,753	120,607
Interest and Sinking Fund	114,301	104,784
Investments Subject to Governing Board Designation		
Emergency Repair, Replacement, and Contingency Fund	942,450	2,377,899
Advance to City of Kerrville	7,500,000	7,500,000
Capital and Right to Use Assets, Net of Accumulated Depreciation and Amortization (Net Utility Plant)	48,989,539	48,128,386
Net Pension Asset	677,020	
TOTAL NONCURRENT ASSETS	\$ 61,649,601	\$ 60,097,584
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow - Pension Plan	\$ 845,964	\$ 441,185
Deferred Outflow - OPEB Plan	55,807	68,159
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 901,771	\$ 509,344
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 96,339,573	\$ 91,630,935

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

CURRENT LIABILITIES		
Current Maturities of Long-Term Liabilities	\$ 437,108	\$ 425,723
Accounts Payable - Net Purchased Power	2,869,454	2,363,314
Accounts Payable - Estimate of Purchased Power	7,947,970	7,947,970
Accounts Payable and Accrued Liabilities	1,417,840	1,201,014
Power Cost Adjustment - Over Collected	3,846,149	1,681,982
TOTAL CURRENT LIABILITIES	\$ 16,518,521	\$ 13,620,003
NONCURRENT LIABILITIES		
Bonds Payable	\$ 2,847,000	\$ 3,269,000
Leases Payable	108,000	123,108
Consumer Deposits and Prepayments	465,586	496,959
Net Pension Liability		779,535
Total OPEB Liability	382,619	353,400
TOTAL NONCURRENT LIABILITIES	\$ 3,803,205	\$ 5,022,002
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow - Pension Plan	\$ 2,039,965	\$ 855,923
Deferred Inflow - OPEB Plan	4,179	8,929
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 2,044,144	\$ 864,852
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 22,365,870	\$ 19,506,857
NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 45,597,431	\$ 44,310,555
Restricted for Debt Service	386,756	376,696
Unrestricted	27,989,516	27,436,827
TOTAL NET POSITION	\$ 73,973,703	\$ 72,124,078
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 96,339,573	\$ 91,630,935

See accompanying notes to the financial statements.

KERRVILLE PUBLIC UTILITY BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

Exhibit B

	September 30,	
	2022	2021
OPERATING REVENUES		
Sales of Electricity	\$ 45,505,227	\$ 42,062,193
Other	682,023	640,139
Total Operating Revenues	<u>\$ 46,187,250</u>	<u>\$ 42,702,332</u>
OPERATING EXPENSES		
Purchased Power	\$ 31,668,574	\$ 28,344,931
Distribution	3,684,455	3,019,635
Administration	4,615,974	4,546,610
Depreciation and Amortization	3,754,334	3,556,200
Total Operating Expenses	<u>\$ 43,723,337</u>	<u>\$ 39,467,376</u>
OPERATING INCOME	<u>\$ 2,463,913</u>	<u>\$ 3,234,956</u>
NON-OPERATING REVENUES AND (EXPENSES)		
Interest Income	\$ 481,427	\$ 264,205
Interest Expense	(119,496)	(121,087)
Payments in Lieu of Taxes	(1,428,744)	(1,301,895)
Other Revenue (Expense)	31,471	(19,179)
Total Non-Operating Revenues and (Expenses)	<u>\$ (1,035,342)</u>	<u>\$ (1,177,956)</u>
INCOME BEFORE CONTRIBUTIONS	\$ 1,428,571	\$ 2,057,000
Capital Contributions	<u>421,054</u>	<u>215,638</u>
CHANGE IN NET POSITION	\$ 1,849,625	\$ 2,272,638
NET POSITION, BEGINNING OF YEAR	<u>\$ 72,124,078</u>	<u>\$ 69,843,094</u>
PRIOR PERIOD ADJUSTMENTS, SEE NOTES		8,346
NET POSITION, BEGINNING OF YEAR - RESTATED	<u>\$ 72,124,078</u>	<u>\$ 69,851,440</u>
NET POSITION, END OF YEAR	<u><u>\$ 73,973,703</u></u>	<u><u>\$ 72,124,078</u></u>

See accompanying notes to the financial statements.

**KERRVILLE PUBLIC UTILITY BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

Exhibit C

	September 30,	
	2022	2021
OPERATING ACTIVITIES		
Cash Received From Customers and Others	\$ 48,006,723	\$ 42,253,914
Cash Payments to Suppliers for Goods and Services	(35,856,507)	(24,300,747)
Cash Payments to Employees for Services	(4,191,227)	(3,904,289)
Net Change in Cash From Operating Activities	<u>\$ 7,958,989</u>	<u>\$ 14,048,878</u>
NON-CAPITAL FINANCING ACTIVITIES		
Interest Received From City of Kerrville	\$ 180,000	\$ 190,000
Payments from City of Kerrville		1,000,000
Payments in Lieu of Taxes	(1,428,744)	(1,301,895)
Net Change in Cash From Non-Capital Financing Activities	<u>\$ (1,248,744)</u>	<u>\$ (111,895)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Additions Including Capitalized Payroll, Benefits, and Overhead	\$ (4,615,487)	\$ (3,885,771)
Interest Payments	(123,751)	(130,055)
Principal Payments	(425,723)	(416,203)
Contributions in Aid of Construction	421,054	215,638
Net Change in Cash From Capital and Related Financing Activities	<u>\$ (4,743,907)</u>	<u>\$ (4,216,391)</u>
INVESTING ACTIVITIES		
Interest Income	\$ 301,427	\$ 74,205
Net Change in Cash From Investing Activities	<u>\$ 301,427</u>	<u>\$ 74,205</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 2,267,765	\$ 9,794,797
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>29,916,429</u>	<u>20,121,632</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 32,184,194</u></u>	<u><u>\$ 29,916,429</u></u>
Reconciliation of Operating Income to Net Cash		
From Operating Activities:		
Operating Income	<u>\$ 2,463,913</u>	<u>\$ 3,234,956</u>
Depreciation Expense	\$ 3,738,119	\$ 3,546,393
Amortization Expense	16,215	9,806
Other Revenue (Expense)	31,471	(19,179)
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables and Unbilled Revenue	(344,792)	(90,022)
(Increase) Decrease in Power Cost Adjustment	2,164,167	(301,336)
(Increase) Decrease in Materials and Supplies	(180,436)	55,947
(Increase) Decrease in Other Current and Accrued Assets	14,955	103,321
(Increase) Decrease in Deferred Outflows of Resources	(392,427)	454,126
Increase (Decrease) in Accounts Payable and Accrued Expenses	727,221	8,072,271
Increase (Decrease) in Customer Deposits	(31,373)	(37,881)
Increase (Decrease) in Net Pension	(1,456,555)	(370,721)
Increase (Decrease) in Total OPEB Liability	29,219	58,181
Increase (Decrease) in Deferred Inflows of Resources	1,179,292	(666,984)
Total Adjustments	<u>\$ 5,495,076</u>	<u>\$ 10,813,922</u>
Net Cash From Operating Activities	<u><u>\$ 7,958,989</u></u>	<u><u>\$ 14,048,878</u></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.

The City reports KPUB as a proprietary component unit discretely presented in its Annual Comprehensive Financial Report (ACFR). 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.

Purchase Power Agreements

KPUB does not generate its own electricity. Instead, it purchases electricity from several different suppliers with terms and pricing negotiated through purchased power agreements (PPAs). KPUB has the following PPAs currently in place:

1. CPS Energy – KPUB currently receives most of its electric energy and capacity from CPS Energy under an agreement which became effective on June 25, 2016, and expires on December 31, 2023. Under this contract, KPUB receives 10 MW of base load energy and its entire load following energy from CPS Energy.
2. NextEra – KPUB receives 20 MW of base load energy pursuant to a PPA with NextEra Energy Power Marketing, LLC which became effective June 25, 2016, and expires on December 31, 2033.
3. City of Garland – KPUB has PPAs with the City of Garland, Texas, for wind power from the Salt Fork Wind Project in Gray County, Texas and from the Albercas Wind Project in Webb County, Texas. These agreements expire in 2030 and 2036. The wind PPAs diversify KPUB's energy sources and help to stabilize the price of KPUB's overall power supply portfolio.
4. DG Solar – On June 20, 2018 KPUB executed six twenty-year PPAs for community solar systems with Renewable Energy Systems Americas (RES). RES sold the PPAs to DG Southwest Solar, a subsidiary of NextEra. 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 four coincident peak (4CP) transmission costs for KPUB and provide access to solar energy for the non-profit customers hosting the systems.
5. Engie – KPUB executed a PPA with Engie on November 20, 2018 for 25 MW of capacity from their Long Draw Solar Project, in Borden County, Texas. The PPA has a 15-year term. The solar PPA diversifies KPUB's energy sources and helps to stabilize the price of KPUB's overall power supply portfolio.

KERRVILLE PUBLIC UTILITY BOARD NOTES TO FINANCIAL STATEMENTS

6. Concho Bluff – KPUB executed a PPA with Concho Bluff LLC on December 12, 2018 for 50 MW of capacity from their Greasewood Solar Project in Pecos County, Texas. The PPA has a 20-year term. The solar PPA diversifies KPUB's energy sources and helps to stabilize the price of KPUB's overall power supply portfolio.

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 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.

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, 2022 and 2021, 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 \$0 and \$0 for the years ended September 30, 2022 and 2021, 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	8.4%
Other	3.3% to 8.0%

KERRVILLE PUBLIC UTILITY BOARD NOTES TO FINANCIAL STATEMENTS

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 2022 and 2021, the amounts in the Interest and Sinking Fund have been sufficient and, therefore, no balance is maintained in the Reserve 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.

The Emergency Repair, Replacement, and Contingency Fund is for funding unforeseen capital infrastructure projects in excess of \$100,000, in order to lessen the impact on electric tariffs.

Customer deposits are also classified as restricted.

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 three months 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 the aging of accounts receivable.

KERRVILLE PUBLIC UTILITY BOARD NOTES TO FINANCIAL STATEMENTS

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, 2022 and 2021, no such liabilities existed.

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 2022 and 2021.

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

In addition to assets, the statement of net position reports a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to future periods.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to future periods.

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

Due to ongoing litigation related to Winter Storm Uri, KPUB has not received a final invoice for power purchased from CPS Energy in February 2021. Accordingly, KPUB has estimated costs for February 2021 based on historical averages. The outcome of pending litigation could result in a cost that is materially different than the estimate. There were no changes to this estimate in 2022.

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 \$23,880,000 as of September 30, 2022, and approximately \$17,640,000 as of September 30, 2021. 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 investment policy, in accordance with the Public Funds Investment Act, allows the following types of investments:

- (a) Obligations of the United States or its agencies and instrumentalities excluding mortgage-backed securities
- (b) Depository certificates of deposit issued by a depository institution that has its main office or a branch office in the State of Texas which are fully FDIC insured or collateralized
- (c) Fully NCUSIF insured share certificates from credit unions domiciled in the State of Texas
- (d) Repurchase agreements collateralized only by cash and obligations of the United States or its agencies
- (e) Local government investment pools rated not less than AAA, or an equivalent rating by at least one nationally recognized rating service which strive to maintain a \$1 net asset value.
- (f) Fully insured brokered certificate of deposit securities from any US state, delivered versus payment to KPUB safekeeping
- (g) Fully FDIC or NCUSIF insured or collateralized interest-bearing accounts of any bank or credit union doing business in Texas
- (h) A1/P1 or equivalent rated domestic commercial paper with a maximum maturity of 270 days

KERRVILLE PUBLIC UTILITY BOARD NOTES TO FINANCIAL STATEMENTS

KPUB has investments in two local government investment pools, TexPool and LOGIC.

The State Comptroller of Public Accounts exercises oversight responsibility over 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 HilltopSecurities and JPMorgan Chase; LOGIC is rated AAAm by Standard & Poor's. There is no regulatory oversight by the State of Texas over LOGIC.

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 fair 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 five years, extending to ten years for construction funds.

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.

**KERRVILLE PUBLIC UTILITY BOARD
NOTES TO FINANCIAL STATEMENTS**

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

	September 30,	
	2022	2021
Investments, Held at NAV		
TexPool	\$ 253,421	\$ 691,745
LOGIC	5,039,729	5,000,734
Total Investment Pools	\$ 5,293,150	\$ 5,692,479
Certificates of Deposits, Fully Collateralized	3,006,787	6,520,907
Total Investments	\$ 8,299,937	\$ 12,213,386
Cash in Bank and On Hand, Fully Collateralized	23,884,257	17,703,043
Total Cash and Cash Equivalents	\$ 32,184,194	\$ 29,916,429

Credit Risk

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

	September 30,	
	2022	2021
Investments, Held at NAV		
TexPool	\$ 253,421	\$ 691,745
LOGIC	5,039,729	5,000,734
Total Investment Pools	\$ 5,293,150	\$ 5,692,479
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 at 102% with securities held by third-party financial institutions and list KPUB as pledgee. All certificates of deposit are made in the name of KPUB. Any securities held by KPUB must be 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

As of September 30, 2022, and 2021, the following was the composition of KPUB's investment portfolio:

	September 30,	
	2022	2021
TexPool	3.05%	5.66%
LOGIC	60.72%	40.94%
Certificates of Deposit	36.23%	53.39%

Foreign Currency Risk

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

3. Capital Assets

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

	2022 Beginning Balances	Increases	Transfers	Decreases	2022 Ending Balances
Capital Assets, Not Being Depreciated					
Land	\$ 252,885	\$	\$	\$	\$ 252,885
Construction in Progress	1,943,177	4,911,127	(5,019,542)		1,834,762
Total Capital Assets, Not Being Depreciated	\$ 2,196,062	\$ 4,911,127	\$ (5,019,542)	\$ 0	\$ 2,087,647
Depreciable and Amortizable Capital and Right to Use Assets					
Distribution System	\$ 76,191,102	\$	\$ 3,458,402	\$ 560,198	\$ 79,089,306
Buildings and Equipment	8,005,745		258,696	227,535	8,036,906
Right to Use - Equipment	161,380				161,380
Transportation Equipment	3,302,221		535,719	72,495	3,765,445
Other	2,366,744		313,281	3,260	2,676,765
Total Capital Assets Being Depreciated	\$ 90,027,192	\$ 0	\$ 4,566,098	\$ 863,488	\$ 93,729,802
Less Accumulated Depreciation and Amortization for:					
Distribution System	\$ 36,887,089	\$ 3,210,071	\$ (453,444)	\$ 559,940	\$ 39,083,776
Buildings and Equipment	5,256,442	429,651		227,535	5,458,558
Right to Use - Equipment	9,806	16,215			26,021
Transportation Equipment	1,297,396	272,584		49,696	1,520,284
Other	644,135	98,396		3,260	739,271
Total Accumulated Depreciation and Amortization	\$ 44,094,868	\$ 4,026,917	\$ (453,444)	\$ 840,431	\$ 46,827,910
Total Capital Assets Being Depreciated and Amortized, Net	\$ 45,932,324	\$ (4,026,917)	\$ 5,019,542	\$ 23,057	\$ 46,901,892
Total Capital Assets, Net	\$ 48,128,386	\$ 884,210	\$ 0	\$ 23,057	\$ 48,989,539

KERRVILLE PUBLIC UTILITY BOARD NOTES TO FINANCIAL STATEMENTS

	2021 Beginning Balances	Increases	Transfers	Decreases	2021 Ending Balances
Capital Assets, Not Being Depreciated					
Land	\$ 252,885	\$	\$	\$	\$ 252,885
Construction in Progress	4,386,814	4,010,826	(6,454,463)		1,943,177
Total Capital Assets, Not Being Depreciated	<u>\$ 4,639,699</u>	<u>\$ 4,010,826</u>	<u>\$ (6,454,463)</u>	<u>\$ 0</u>	<u>\$ 2,196,062</u>
Depreciable and Amortizable Capital and Right to Use Assets					
Distribution System	\$ 71,906,695	\$	\$ 5,082,280	\$ 797,873	\$ 76,191,102
Buildings and Equipment	7,369,670		673,671	37,596	8,005,745
Right to Use - Equipment	161,380				161,380
Transportation Equipment	3,076,630		472,023	246,432	3,302,221
Other	2,151,200		226,489	10,945	2,366,744
Total Capital Assets Being Depreciated	<u>\$ 84,665,575</u>	<u>\$ 0</u>	<u>\$ 6,454,463</u>	<u>\$ 1,092,846</u>	<u>\$ 90,027,192</u>
Less Accumulated Deprecation and Amortization for:					
Distribution System	\$ 34,711,109	\$ 3,150,257	\$	\$ 974,277	\$ 36,887,089
Buildings and Equipment	4,900,897	393,141		37,596	5,256,442
Right to Use - Equipment		9,806			9,806
Transportation Equipment	1,343,046	134,520		180,170	1,297,396
Other	556,599	98,481		10,945	644,135
Total Accumulated Depreciation and Amortization	<u>\$ 41,511,651</u>	<u>\$ 3,786,205</u>	<u>\$ 0</u>	<u>\$ 1,202,988</u>	<u>\$ 44,094,868</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 43,153,924</u>	<u>\$ (3,786,205)</u>	<u>\$ 6,454,463</u>	<u>\$ (110,142)</u>	<u>\$ 45,932,324</u>
Total Capital Assets, Net	<u>\$ 47,793,623</u>	<u>\$ 224,621</u>	<u>\$ 0</u>	<u>\$ (110,142)</u>	<u>\$ 48,128,386</u>

4. Long-Term Obligations

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

	September 30,	
	2022	2021
Series 2013, Utility System Revenue Bonds, Interest		
Rates from 1.01% to 4.13% - Semiannual	\$ 3,269,000	\$ 3,680,000
Less: Current Portion	422,000	411,000
Non-Current Portion	<u>\$ 2,847,000</u>	<u>\$ 3,269,000</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 November 1, 2028. 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.

**KERRVILLE PUBLIC UTILITY BOARD
NOTES TO FINANCIAL STATEMENTS**

A schedule of bond maturities and interest as of September 30, 2022, is as follows:

Fiscal Year Ending	Principal	Interest	Total
2023	\$ 422,000	\$ 109,197	\$ 531,197
2024	434,000	96,584	530,584
2025	448,000	82,531	530,531
2026	464,000	67,041	531,041
2027	481,000	50,000	531,000
2028-2029	1,020,000	42,014	1,062,014
	<u>\$ 3,269,000</u>	<u>\$ 447,367</u>	<u>\$ 3,716,367</u>

The following is a summary of changes in long-term obligations for the year ended September 30, 2022 and 2021, with amounts due within one year:

	October 1, 2021	Increase	Decreases	September 30, 2022	Amounts Due Within One Year
Bonds Payable	\$ 3,680,000	\$	\$ (411,000)	\$ 3,269,000	\$ 422,000
Customer Deposits	496,959	288,062	(319,435)	465,586	
	<u>\$ 4,176,959</u>	<u>\$ 288,062</u>	<u>\$ (730,435)</u>	<u>\$ 3,734,586</u>	<u>\$ 422,000</u>

	October 1, 2020	Increase	Decreases	September 30, 2021	Amounts Due Within One Year
Bonds Payable	\$ 4,081,000	\$	\$ (401,000)	\$ 3,680,000	\$ 411,000
Customer Deposits	534,840	268,225	(306,106)	496,959	
	<u>\$ 4,615,840</u>	<u>\$ 268,225</u>	<u>\$ (707,106)</u>	<u>\$ 4,176,959</u>	<u>\$ 411,000</u>

5. Leases

Lease agreements are summarized as follows:

Description	Date	Term	Payment	Rate	Original Amount	Ending Balance	Current Maturity
Tower Lease	9/1/2021	10 years	\$ 7,462	1.469%	\$ 69,913	\$ 55,937	\$ 6,640
Tower Lease	10/1/2020	10 years	8,347-10,891	0.972%	91,467	67,171	8,468
					<u>\$ 161,380</u>	<u>\$ 123,108</u>	<u>\$ 15,108</u>

KPUB has entered into two leases that are considered “right-to-use” leases. The leases are for the use of towers which are owned entities. KPUB uses the towers to attach radio equipment for internal use. The terms of the lease are 10 years with payments as listed in the table above.

**KERRVILLE PUBLIC UTILITY BOARD
NOTES TO FINANCIAL STATEMENTS**

Estimated annual requirements to amortize the obligations and related interest are as follows:

Fiscal Year Ending	Principal	Interest	Total
2023	\$ 15,108	\$ 1,475	\$ 16,583
2024	15,562	1,295	16,857
2025	16,028	1,110	17,138
2026	16,509	920	17,429
2027	17,002	725	17,727
2028-2030	42,899	953	43,852
	<u>\$ 123,108</u>	<u>\$ 6,478</u>	<u>\$ 129,586</u>

6. Related Party Transactions

Pursuant to the bond ordinance, KPUB pays the City 3.00% of gross revenues of the System on a monthly basis. Such City fees, which are recorded as non-operating expenses, totaled \$1,394,660 and \$1,282,600 paid for the years ended September 30, 2022 and 2021, respectively. At September 30, 2022 and 2021, amounts due to the City by KPUB totaled \$159,521 and \$129,190, 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 thirteen-year repayment term with the first six years being interest only payments, and a 2.40% stated interest rate. The maturity date is August 1, 2029 with principal payments beginning on February 1, 2023. 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.

A schedule of the note maturities and future interest payments as of September 30, 2022, is as follows:

Fiscal Year Ending	Principal	Interest	Total
2023	\$ 1,071,428	\$ 173,571	\$ 1,244,999
2024	1,071,428	147,857	1,219,285
2025	1,071,428	122,143	1,193,571
2026	1,071,428	96,429	1,167,857
2027	1,071,428	70,714	1,142,142
2028-2029	2,142,860	64,286	2,207,146
	<u>\$ 7,500,000</u>	<u>\$ 675,000</u>	<u>\$ 8,175,000</u>

**KERRVILLE PUBLIC UTILITY BOARD
NOTES TO FINANCIAL STATEMENTS**

7. Net Pension Liability - TMRS

Plan Description

KPUB participates as one of 901 active 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 annual comprehensive financial report that can be obtained at www.tmrs.com.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the 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, 2021 and 2020</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

**KERRVILLE PUBLIC UTILITY BOARD
NOTES TO FINANCIAL STATEMENTS**

Employees Covered by Benefit Terms

At the December 31, 2021 and 2020 valuation and measurement date, the following employees were covered by the benefit terms:

	2021	2020
Inactive Employees or Beneficiaries Currently Receiving Benefits	48	44
Inactive Employees Entitled to but not Yet Receiving Benefits	32	30
Active Employees	53	53
Total Plan Employees	<u>133</u>	<u>127</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.

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 11.96% and 12.06% in calendar years 2021 and 2020, respectively. KPUB's contributions to TMRS for the calendar year ended December 31, 2021 and 2020 were \$602,987 and \$581,151, and were more than the required contribution rate.

Net Pension Liability

KPUB's Net Pension Liability (NPL) was measured as of December 31, 2021, 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	2.65% Per Year
Investment Rate of Return	6.75%, Net of Pension Plan Investment Expense, Including Inflation
Amortization Period	24 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.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

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, 2019 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 is determined by weighting the expected return for each major asset class by the respective target allocation percentage. The target allocation and best estimates of arithmetic rates of return for each major asset class as December 31, 2021 and 2020 are summarized in the following tables:

December 31, 2021		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.00%	7.55%
Core Fixed Income	6.00%	2.00%
Non-Core Fixed Income	20.00%	5.68%
Other Public and Private Markets	12.00%	7.22%
Real Estate	12.00%	6.85%
Hedge Funds	5.00%	5.35%
Private Equity	10.00%	10.00%

December 31, 2020		
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%

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75% for the years ended December 31, 2021 and 2020. 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 12/31/2019	\$ 29,662,322	\$ 28,512,066	\$ 1,150,256
Service Cost	662,672		662,672
Interest (on the Total Pension Liability)	1,986,779		1,986,779
Difference Between Expected and Actual Experience	4,905		4,905
Changes of assumptions			-
Contributions - Employee		294,147	(294,147)
Contributions - Employer		581,151	(581,151)
Net Investment Income		2,164,329	(2,164,329)
Benefit Payments	(1,119,784)	(1,119,784)	
Administrative Expense		(14,004)	14,004
Other		(546)	546
Balance 12/31/2020	\$ 31,196,894	\$ 30,417,359	\$ 779,535
Service Cost	688,378		688,378
Interest (on the Total Pension Liability)	2,088,014		2,088,014
Difference Between Expected and Actual Experience	624,065		624,065
Contributions - Employee		306,530	(306,530)
Contributions - Employer		602,987	(602,987)
Net Investment Income		3,965,717	(3,965,717)
Benefit Payments	(1,215,094)	(1,215,094)	
Administrative Expense		(18,347)	18,347
Other		125	(125)
Balance 12/31/2021	\$ 33,382,257	\$ 34,059,277	\$ (677,020)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) 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:

2021		
1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
\$ 4,019,369	\$ (677,020)	\$ (4,537,415)
2020		
1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
\$ 5,224,017	\$ 779,535	\$ (2,872,940)

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.

**KERRVILLE PUBLIC UTILITY BOARD
NOTES TO FINANCIAL STATEMENTS**

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

For the year ended September 30, 2022 and 2021, the KPUB recognized pension expense (income) of (\$117,419) and \$46,175, respectively, and calculated as shown below:

	2022	2021
Total Service Cost	\$ 688,378	\$ 662,672
Interest on the Total Pension Liability	2,088,014	1,986,779
Employee Contributions (Reduction of Expense)	(306,530)	(294,147)
Projected Earnings on Plan Investments (Reduction of Expense)	(2,053,172)	(1,924,564)
Administrative Expense	18,347	14,004
Other Changes in Fiduciary Net Position	(126)	546
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	131,061	(97,941)
Recognition of Current Year Outflow (Inflow) of Resources-Assets	(683,391)	(301,174)
Total Pension Expense	<u>\$ (117,419)</u>	<u>\$ 46,175</u>

At September 30, 2022, KPUB reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 451,435	\$ 3,010
Change of assumptions		610
Differences between projected and actual investment earnings		2,036,345
Contributions subsequent to the measurement date through year-end	394,529	
Total	<u>\$ 845,964</u>	<u>\$ 2,039,965</u>

Deferred outflows of resources in the amount of \$394,529 and \$437,643 related to pensions resulting from contributions subsequent to the measurement date were recognized for the years ending September 30, 2022 and 2021, and will be amortized fully in the next fiscal year.

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

Plan Year	Net Deferred Outflows / (Inflows) of Resources
2022	\$ (186,891)
2023	(688,307)
2024	(330,824)
2025	(382,508)
	<u>\$ (1,588,530)</u>

**KERRVILLE PUBLIC UTILITY BOARD
NOTES TO FINANCIAL STATEMENTS**

8. Total Other Post Employment Benefit (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 plan is account for as an agent multi-employer defined benefit plan. 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 (no qualifying trust), 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 GASB Statement 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 GASB 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.

Employees Covered by Benefit Terms

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2021</u>	<u>2020</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	43	39
Inactive Employees Entitled to but not Yet Receiving Benefits	20	19
Active Employees	<u>53</u>	<u>53</u>
Total Plan Employees	<u>116</u>	<u>111</u>

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Total OPEB Liability

KPUB's total OPEB liability of \$382,619 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the December 31, 2021 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	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount Rate	2.00% for 2020 and 1.84% for 2021
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 GASB Statement 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 1.84% based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

Annuity Purchase Rates:

Annuity purchase rates are used to determine the benefit amount 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.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

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, 2019	\$ 295,219
Changes for the year:	
Service Cost	8,824
Interest on Total OPEB Liability	8,217
Effect of Economic/Demographic Experience	(2,968)
Effect of Assumptions Changes or Inputs	45,789
Benefit Payments	<u>(1,681)</u>
Balance as of December 31, 2020	\$ 353,400
Changes for the year:	
Service Cost	11,385
Interest on Total OPEB Liability	7,125
Effect of Economic/Demographic Experience	5,122
Effect of Assumptions Changes or Inputs	11,280
Benefit Payments	<u>(5,693)</u>
Balance as of December 31, 2021	<u><u>\$ 382,619</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 of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of KPUB, calculated using the discount rate of 2.00% and 1.84%, 2020 and 2021, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.00% and 0.84%) or 1 percentage point higher (3.00% and 2.84%) 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.

	2021		
	1% Decrease in Discount Rate (0.84%)	Discount Rate (1.84%)	1% Increase in Discount Rate (2.84%)
Total OPEB Liability	\$ 465,096	\$ 382,619	\$ 318,633

	2020		
	1% Decrease in Discount Rate (1.00%)	Discount Rate (2.00%)	1% Increase in Discount Rate (3.00%)
Total OPEB Liability	\$ 429,227	\$ 353,400	\$ 294,141

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

For the year ended September 30, 2022, KPUB recognized OPEB expense of \$43,139. At September 30, 2022, 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
Differences between expected and actual experience	\$ 4,114	\$ 1,909
Change of assumptions	46,936	2,270
Contributions subsequent to the measurement date through year-end	4,757	
Total	<u>\$ 55,807</u>	<u>\$ 4,179</u>

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:

Plan Year	Net Deferred Outflows / (Inflows) of Resources
2022	\$ 23,418
2023	18,481
2024	4,654
2025	318
	<u>\$ 46,871</u>

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO FINANCIAL STATEMENTS

Deferred Outflows of Resources related to employer contributions subsequent to the measurement date in the amount of \$4,757 will be fully amortized in the next year.

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, 2022 and 2021:

Investments in LOGIC and TexPool of \$5,039,729 and \$5,000,734, and \$253,421 and \$691,745 as of September 30, 2022 and 2021, respectively.

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, 2022 LOGIC \$5,039,729	None	Daily	Daily
September 30, 2021 LOGIC \$5,000,734	None	Daily	Daily
September 30, 2022 TexPool \$253,421	None	Daily	Daily
September 30, 2021 TexPool \$691,745	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 \$20,500. 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.

During the year ended September 30, 2021 a substantial winter storm (Winter Storm Uri) impacted KPUB's system. There were no major damages to KPUB's system, however the effects of the storm were recognized in the form of power supply instability in the ERCOT market. The instability in the market caused ERCOT to raise generation prices to maximum allowable rates in order for power producers to go online. This resulted in increased power costs throughout the ERCOT market and at the moment has been absorbed by KPUB's main power supplier until litigation is settled between the power supplier and third parties. KPUB is aware that additional costs will be billed and has estimated the remaining power bill related to the winter storm to be \$7,947,970. This estimate is based on historical activity and is subject to change as final bills and litigation are settled.

12. Prior Period Adjustment and Reclassifications

KPUB made a prior period adjustment to restate the financial statements for the impact of adopting GASB No. 87, *Leases*. The restatement resulted in an increase to Net Position of \$8,346 as of September 30, 2020. The subsequent statements were also updated to reflect the impact of the adoption in 2021 and 2022.

Certain amounts in the financial statements have been reclassified for comparative purposes.



REQUIRED SUPPLEMENTARY
INFORMATION

**KERRVILLE PUBLIC UTILITY BOARD
DEFINED BENEFIT RETIREMENT PLAN
SCHEDULE OF CHANGES IN THE PLAN'S NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2022
REQUIRED SUPPLEMENTARY INFORMATION**

RSI 1

	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability
Service Cost	\$ 553,679	\$ 673,011	\$ 647,310	\$ 638,277	\$ 615,347	\$ 635,605	\$ 662,672	\$ 688,378
Interest	1,474,035	1,588,966	1,643,216	1,711,786	1,805,527	1,888,697	1,986,779	2,088,014
Benefit Payments	(526,824)	(745,186)	(981,761)	(827,347)	(1,027,706)	(1,031,788)	(1,119,784)	(1,215,094)
Differences between Expected and Actual Experience	190,503	119,729	(365,600)	(22,320)	(169,108)	(6,158)	4,905	624,065
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	\$ 1,534,572	\$ 2,185,363
Beginning Balance	21,044,215	22,735,608	24,511,166	25,454,331	26,954,727	28,178,787	29,662,322	31,196,894
Ending Balance	\$ 22,735,608	\$ 24,511,166	\$ 25,454,331	\$ 26,954,727	\$ 28,178,787	\$ 29,662,322	\$ 31,196,894	\$ 33,382,257
	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position
Employer Contributions	\$ 437,344	\$ 513,580	\$ 473,838	\$ 512,666	\$ 542,527	\$ 558,073	\$ 581,151	\$ 602,987
Employee Contributions	270,204	304,924	281,090	279,946	272,968	282,671	294,147	306,530
Net Investment Income	1,153,226	31,695	1,457,035	3,157,178	(775,398)	3,846,678	2,164,329	3,965,717
Benefit Payments	(526,824)	(745,186)	(981,761)	(827,347)	(1,027,706)	(1,031,788)	(1,119,784)	(1,215,094)
Administration Expenses	(12,040)	(19,305)	(16,459)	(16,360)	(14,984)	(21,733)	(14,004)	(18,347)
Other	(990)	(953)	(887)	(829)	(783)	(653)	(546)	125
Net Change	\$ 1,320,920	\$ 84,755	\$ 1,212,856	\$ 3,105,254	\$ (1,003,376)	\$ 3,633,248	\$ 1,905,293	\$ 3,641,918
Beginning Balance	20,158,409	21,479,329	21,564,084	22,776,940	25,882,194	24,878,818	28,512,066	30,417,359
Ending Balance	\$ 21,479,329	\$ 21,564,084	\$ 22,776,940	\$ 25,882,194	\$ 24,878,818	\$ 28,512,066	\$ 30,417,359	\$ 34,059,277
Net Pension Liability (Asset)	\$ 1,256,279	\$ 2,947,082	\$ 2,677,391	\$ 1,072,533	\$ 3,299,969	\$ 1,150,256	\$ 779,535	\$ (677,020)
Fiduciary Net Position as a Percentage of Total Pension Liability	94.47%	87.98%	89.48%	96.02%	88.29%	96.12%	97.50%	102.03%
Covered Payroll	\$ 3,860,050	\$ 4,356,061	\$ 4,015,570	\$ 3,999,227	\$ 3,899,540	\$ 4,038,153	\$ 4,202,103	\$ 4,378,995
Net Pension Liability (Asset) as a Percentage of Covered Payroll	32.55%	67.65%	66.68%	26.82%	84.62%	28.48%	18.55%	-15.46%

Note: Only eight years of GASB 68 Data Available as of 12/31/2021. The remaining two years of data will be built on a go forward basis.

**KERRVILLE PUBLIC UTILITY BOARD
DEFINED BENEFIT RETIREMENT PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2022
REQUIRED SUPPLEMENTARY INFORMATION**

RSI 2

	<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>	<u>9/30/2021</u>	<u>9/30/2022</u>
Actuarially Determined Contribution	\$ 486,427	\$ 478,030	\$ 496,124	\$ 537,357	\$ 558,424	\$ 509,068	\$ 515,755	\$ 538,098
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>	<u>593,188</u>	<u>559,832</u>
Excess Contribution	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (74,863)</u>	<u>\$ (77,433)</u>	<u>\$ (21,734)</u>
Covered Payroll	\$ 4,165,019	\$ 4,052,120	\$ 4,020,268	\$ 3,919,181	\$ 4,012,557	\$ 4,223,025	\$ 4,302,930	\$ 4,598,586
Contributions as a Percentage of Covered Payroll	11.68%	11.80%	12.34%	13.71%	13.92%	13.83%	13.79%	12.17%

Note: Only eight years of GASB 68 Data Available as of 09/30/2022. The remaining two years of data will be built on a go forward basis.

**KERRVILLE PUBLIC UTILITY BOARD
SUPPLEMENTAL DEATH BENEFIT FUND
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2022
REQUIRED SUPPLEMENTARY INFORMATION**

RSI 3

	<u>12/31/2017</u> <u>Total OPEB</u> <u>Liability</u>	<u>12/31/2018</u> <u>Total OPEB</u> <u>Liability</u>	<u>12/31/2019</u> <u>Total OPEB</u> <u>Liability</u>	<u>12/31/2020</u> <u>Total OPEB</u> <u>Liability</u>	<u>12/31/2021</u> <u>Total OPEB</u> <u>Liability</u>
Service Cost	\$ 5,999	\$ 6,629	\$ 6,057	\$ 8,824	\$ 11,385
Interest	7,837	7,918	8,786	8,217	7,125
Benefit Payments	(1,200)	(1,170)	(1,615)	(1,681)	(5,693)
Differences between Expected and Actual Experience		1,880	(1,294)	(2,968)	5,122
Changes in Assumptions	<u>18,923</u>	<u>(17,158)</u>	<u>48,695</u>	<u>45,789</u>	<u>11,280</u>
Net Change	\$ 31,559	\$ (1,901)	\$ 60,629	\$ 58,181	\$ 29,219
Beginning Balance	<u>204,932</u>	<u>236,491</u>	<u>234,590</u>	<u>295,219</u>	<u>353,400</u>
Ending Balance	\$ <u>236,491</u>	\$ <u>234,590</u>	\$ <u>295,219</u>	\$ <u>353,400</u>	\$ <u>382,619</u>
Total OPEB Liability	\$ <u>236,491</u>	\$ <u>234,590</u>	\$ <u>295,219</u>	\$ <u>353,400</u>	\$ <u>382,619</u>
Covered Employee Payroll	\$ 3,999,227	\$ 3,899,540	\$ 4,038,153	\$ 4,202,102	\$ 4,378,995
Total OPEB Liability as a Percentage of Covered Employee Payroll	5.91%	6.02%	7.31%	8.41%	8.74%

Note: Only five years of GASB 75 Data Available as of 12/31/2021. The remaining five years of data will be built on a go forward basis.

Note: There are no assets accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for the OPEB plan.

KERRVILLE PUBLIC UTILITY BOARD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR THE YEAR ENDED SEPTEMBER 30, 2022

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	24 years
Asset Valuation Method	10 Year smoothed market; 12% 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.



STATISTICAL SECTION

STATISTICAL SECTION

This part of KPUB's annual comprehensive financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the utility's overall financial health.

Table of Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how KPUB's financial performance and well-being have changed over time.	48
Revenue Capacity This schedule contains information to help the reader assess KPUB's most significant revenue source, the sale of electricity.	50
Debt Capacity This schedule presents information to help the reader assess the affordability of the KPUB's current levels of outstanding debt and the utility's ability to issue additional debt in the future.	53
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the utility's financial activities take place.	54
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the utility's financial report relates to the services the utility provides and the activities it performs.	56



FINANCIAL TRENDS

**KERRVILLE PUBLIC UTILITY BOARD
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,**

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Net Investment in capital assets	\$ 45,597,431	\$ 44,310,555	\$ 43,551,243	\$ 41,739,262	\$ 38,090,844	\$ 33,576,572	\$ 33,245,222	\$ 31,325,395	\$ 26,862,426	\$ 28,647,865
Restricted:										
Debt Service	386,756	376,696	367,619	384,108	398,560	360,116	350,824	343,223	285,338	1,893,877
Bond Resolution	-	-	-	-	-	-	593,313	1,746,853	3,216,714	297,093
Unrestricted	\$ 27,989,516	\$ 27,436,827	\$ 25,924,232	\$ 25,826,412	\$ 26,458,292	\$ 29,866,787	\$ 21,817,081	\$ 21,330,958	\$ 17,557,649	\$ 14,685,723
Total fund net position	<u>\$ 73,973,703</u>	<u>\$ 72,124,078</u>	<u>\$ 69,843,094</u>	<u>\$ 67,949,782</u>	<u>\$ 64,947,696</u>	<u>\$ 63,803,475</u>	<u>\$ 56,006,440</u>	<u>\$ 54,746,429</u>	<u>\$ 47,922,127</u>	<u>\$ 45,524,558</u>

Source: KPUB audited financial statements

**KERRVILLE PUBLIC UTILITY BOARD
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,**

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Operating Expenses										
Purchased power	\$ 31,668,574	\$ 28,344,931	\$ 27,568,854	\$ 27,433,339	\$ 28,918,468	\$ 26,751,838	\$ 21,936,659	\$ 29,138,645	\$ 26,159,535	\$ 24,831,897
Distribution	3,684,455	3,019,635	3,334,014	3,005,119	2,568,044	2,570,826	2,614,566	2,739,419	2,488,855	2,555,692
Administration	4,615,974	4,546,610	4,784,427	4,803,257	4,734,209	4,597,147	4,448,495	5,716,106	5,062,387	3,971,065
Depreciation and Amortization	3,754,334	3,556,200	3,432,186	3,241,013	3,991,485	2,824,812	2,801,802	2,209,345	2,096,010	2,052,261
Total Operating Expenses	43,723,337	39,467,376	39,119,481	38,482,728	40,212,206	36,744,623	31,801,522	39,803,515	35,806,787	33,410,915
Operating Revenues										
Sales of electricity	45,505,227	42,062,193	41,282,893	41,285,231	41,555,188	45,487,389	33,405,363	41,882,448	38,913,200	36,568,286
Other	682,023	640,139	390,085	669,617	612,214	707,823	555,901	580,950	599,039	609,940
Total Operating Revenues	46,187,250	42,702,332	41,672,978	41,954,848	42,167,402	46,195,212	33,961,264	42,463,398	39,512,239	37,178,226
Net (Expense) Revenue	2,463,913	3,234,956	2,553,497	3,472,120	1,955,196	9,450,589	2,159,742	2,659,883	3,705,452	3,767,311
Non-operating Expenses and Revenues										
Non-operating Expenses										
Interest Expense	119,496	121,087	103,015	112,979	136,781	149,789	156,724	157,755	125,178	161,020
Payments in Lieu of Taxes	1,428,744	1,301,895	1,305,091	1,397,097	1,376,638	1,232,841	1,122,252	1,512,134	1,291,922	1,212,776
Non-operating revenues:										
Interest Income	481,427	264,205	463,863	654,509	550,293	397,246	164,052	29,760	12,075	18,908
Assignment of Wholesale Power Agreement rights								6,250,000		
Other	31,471	(19,179)	4,576	30,870	40,825	27,537	53,395	6,765	11,778	4,828
Total Non-operating (Expense) Revenue	(1,035,342)	(1,177,956)	(939,667)	(824,697)	(922,301)	(957,847)	(1,061,529)	4,616,636	(1,393,247)	(1,350,060)
Income Before Contributions	1,428,571	2,057,000	1,613,830	2,647,423	1,032,895	8,492,742	1,098,213	7,276,519	2,312,205	2,417,251
Capital contributions	421,054	215,638	279,482	354,663	111,326	59,184	161,798	107,618	85,364	150,440
Change in Net Position	\$ 1,849,625	\$ 2,272,638	\$ 1,893,312	\$ 3,002,086	\$ 1,144,221	\$ 8,551,926	\$ 1,260,011	\$ 7,384,137	\$ 2,397,569	\$ 2,567,691

Source: KPUB audited financial statements



REVENUE CAPACITY

**KERRVILLE PUBLIC UTILITY BOARD
PRINCIPAL CUSTOMERS
CURRENT YEAR AND NINE YEARS AGO**

Customer	2022				2013			
	kWh Sold	Total Revenue	Rank	% of Revenue Base	kWh Sold	Total Revenue	Rank	% of Revenue Base
Kerrville Independent School District	11,534,711	\$ 997,447	1	2.19%	9,913,710	\$ 821,017	3	2.25%
City of Kerrville	11,500,004	1,243,303	2	2.73%	9,951,653	1,005,285	2	2.75%
Peterson Regional Medical Center	10,881,557	774,706	3	1.70%	10,328,430	651,814	1	1.78%
Schreiner University	8,920,102	769,853	4	1.69%	8,418,140	634,831	5	1.74%
Kerrville VA Hospital	8,174,714	519,517	5	1.14%	8,649,473	546,191	4	1.49%
H-E-B	7,134,872	484,766	6	1.07%	6,947,896	450,562	6	1.23%
All-Plastics (formerly Atek Plastics Inc)	6,599,520	453,126	7	1.00%	4,661,760	291,070	9	0.80%
Kerrville State Hospital	5,987,664	395,409	8	0.87%	5,478,000	109,432	7	0.30%
Kerr County	3,666,988	327,088	9	0.72%				
Wal-Mart	3,760,535	261,789	10	0.58%	4,977,156	309,085	8	0.85%
Lowe's					3,040,800	205,132	10	0.56%
Total	78,160,667	\$ 6,227,004		13.68%	72,367,018	\$ 5,024,419		13.74%

Source: KPUB customer billing register

**KERRVILLE PUBLIC UTILITY BOARD
REVENUE BY SOURCES
LAST TEN FISCAL YEARS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,**

Description	2022	2021	2020	2019	2018	2017	2016*	2015	2014	2013
Sales of Electricity	\$ 45,505,227	\$ 42,062,193	\$ 41,282,893	\$ 41,285,231	\$ 41,555,188	\$ 45,487,389	\$ 33,405,363	\$ 41,882,448	\$ 38,913,200	\$ 36,568,286
Other Operating Revenue	682,023	640,139	390,085	669,617	612,214	707,823	555,901	580,950	599,039	609,940
Interest Income	481,427	264,205	463,863	654,509	550,293	397,247	164,052	29,760	12,075	18,908
Capital Contributions	421,054	215,638	279,482	354,663	111,326	59,184	161,798	107,618	85,364	150,440
Other Revenue (Expense)	31,471	(19,179)	4,576	30,870	40,825	27,537	53,395	6,765	11,778	4,828
Total Revenue	\$ 47,121,202	\$ 43,162,996	\$ 42,420,899	\$ 42,994,890	\$ 42,869,846	\$ 46,679,181	\$ 34,340,509	\$ 42,607,541	\$ 39,621,456	\$ 37,352,402
 Total Revenue per kWh Sold	 \$ 0.0904	 \$ 0.0879	 \$ 0.0854	 \$ 0.0851	 \$ 0.0857	 \$ 0.1000	 \$ 0.0716	 \$ 0.0859	 \$ 0.0798	 \$ 0.0810

Source: KPUB audited financial statements

* Does not include Assignment of Wholesale Power Agreement Rights

**KERRVILLE PUBLIC UTILITY BOARD
EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,**

Description	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Purchased Power	\$ 31,668,574	\$ 28,344,931	\$ 27,568,854	\$ 27,433,339	\$ 28,918,468	\$ 26,751,838	\$ 21,936,659	\$ 29,138,645	\$ 26,159,535	\$ 24,831,897
Distribution Expense	3,684,455	3,019,635	3,334,014	3,005,119	2,568,044	2,570,837	2,614,566	2,739,419	2,488,855	2,555,692
Administration Expense	4,615,974	4,546,610	4,784,427	4,803,257	4,734,209	4,597,147	4,448,495	5,716,106	5,062,387	3,971,065
Depreciation & Amortization Expense	3,754,334	3,556,200	3,432,186	3,241,013	3,991,485	2,824,812	2,801,802	2,209,345	2,096,010	2,052,261
Interest Expense	119,496	121,087	103,015	112,979	136,781	149,789	156,724	157,755	125,178	161,020
Payments in Lieu of Taxes	1,428,744	1,301,895	1,305,091	139,710	1,376,638	1,232,841	1,122,252	1,512,134	1,291,922	1,212,776
Total Expense	\$ 45,271,577	\$ 40,890,358	\$ 40,527,587	\$ 38,735,417	\$ 41,725,625	\$ 38,127,264	\$ 33,080,498	\$ 41,473,404	\$ 37,223,887	\$ 34,784,711
Total Cost per kWh Sold	\$ 0.0869	\$ 0.0833	\$ 0.0779	\$ 0.0767	\$ 0.0834	\$ 0.0817	\$ 0.0689	\$ 0.0836	\$ 0.0750	\$ 0.0755

Source: KPUB audited financial statements



DEBT CAPACITY

**KERRVILLE PUBLIC UTILITY BOARD
 PLEDGED REVENUE COVERAGE AND RATIOS
 LAST TEN FISCAL YEARS
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30,**

Description	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Change in Net Position	\$ 1,849,625	\$ 2,272,638	\$ 1,893,312	\$ 3,002,086	\$ 1,144,221	\$ 8,551,926	\$ 1,260,011	\$ 7,384,137	\$ 2,397,569	\$ 2,567,691
Interest Expense	119,496	121,087	103,015	112,979	137,453	149,789	156,724	157,755	125,178	161,020
Depreciation and Amortization	3,754,334	3,556,200	3,432,186	3,241,013	3,970,388	2,865,880	2,868,362	2,280,063	2,096,010	2,052,261
Available for Debt Service	\$ 5,723,455	\$ 5,949,925	\$ 5,428,513	\$ 6,356,078	\$ 5,252,062	\$ 11,567,595	\$ 4,285,097	\$ 9,821,955	\$ 4,618,757	\$ 4,780,972
Debt Service	\$ 540,579	\$ 531,254	\$ 491,651	\$ 504,395	\$ 521,953	\$ 524,789	\$ 528,724	\$ 473,755	\$ 583,690	\$ 2,256,874
Debt Service Coverage Ratio	10.59	11.20	11.04	12.60	10.06	22.04	8.10	20.73	7.91	2.12
Total Revenue Bond Debt Outstanding (Including current maturities)	\$ 3,269,000	\$ 3,680,000	\$ 4,081,000	\$ 4,473,000	\$ 4,858,000	\$ 5,237,000	\$ 5,612,000	\$ 5,984,000	\$ 6,300,000	\$ 2,065,000
Per Customer Ratio of Outstanding Debt	\$ 137	\$ 155	\$ 176	\$ 195	\$ 212	\$ 231	\$ 248	\$ 269	\$ 286	\$ 94
Rate Covenant per Bond Ordinance	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Outstanding Debt as a % of Personal Income (a)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note: (a) Personal income figures for KPUB's service area not available

Source: KPUB audited financial statements



DEMOGRAPHIC AND ECONOMIC INFORMATION

**KERRVILLE PUBLIC UTILITY BOARD
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

Fiscal Year	Population Estimate		Personal Income (000s)		Per Capita Personal Income		Median Age		Public School Enrollment		Unemployment Rate (unadjusted)	
2022	53,528	(a)	\$ 3,422,497	(a)	\$ 63,939	(a)	48.0	(a)	6,763	(a)	3.4%	(1)
2021	53,161	(1)	\$ 3,264,115	(1)	\$ 61,401	(1)	48.0	(a)	6,763	(3)	4.3%	(1)
2020	52,598	(2)	\$ 3,023,699	(1)	\$ 57,402	(1)	48.0	(1)	6,623	(3)	5.3%	(1)
2019	52,422	(1)	\$ 2,859,066	(1)	\$ 54,721	(1)	47.4	(1)	6,804	(3)	3.0%	(1)
2018	52,359	(1)	\$ 2,720,431	(1)	\$ 52,110	(1)	47.7	(1)	6,919	(3)	3.3%	(1)
2017	51,883	(1)	\$ 2,608,704	(1)	\$ 50,409	(1)	47.8	(1)	6,912	(3)	3.4%	(1)
2016	51,442	(1)	\$ 2,428,429	(1)	\$ 47,310	(1)	48.0	(1)	6,867	(3)	3.9%	(1)
2015	50,869	(1)	\$ 2,433,608	(1)	\$ 47,927	(1)	47.9	(1)	6,849	(3)	3.7%	(1)
2014	50,333	(1)	\$ 2,403,652	(1)	\$ 47,824	(1)	47.8	(1)	6,851	(3)	4.4%	(1)
2013	49,781	(1)	\$ 2,244,341	(1)	\$ 45,134	(1)	47.7	(1)	6,788	(3)	5.7%	(1)

Note: (a) Data not yet available. Estimated based on historical trends. Will be updated with actual numbers when available.

Sources: (1) St. Louis Federal Reserve Economic Data (FRED)
(2) Census.gov
(3) Texas Education Agency

**KERRVILLE PUBLIC UTILITY BOARD
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

Employer	2022			2013		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Peterson Regional Medical Center	1,200	1	5.23%	851	1	3.77%
Kerrville Independent School District	679	2	2.96%	741	2	3.28%
Schreiner University	650	3	2.83%	n/a	n/a	n/a
James Avery Craftsman, Inc	600	4	2.61%	350	6	1.55%
Kerrville State Hospital	600	5	2.61%	535	3	2.37%
H-E-B	600	6	2.61%	320	7	1.42%
South Texas Veterans Health Care System	400	7	1.74%	452	4	2.00%
Kerr County	353	8	1.54%	299	9	1.32%
City of Kerrville	323	9	1.41%	304	8	1.35%
Wal-Mart	300	10	1.31%	400	5	1.77%
Sava Senior Center				281	10	1.24%

Source: Kerr Economic Development Corporation



OPERATING INFORMATION

**KERRVILLE PUBLIC UTILITY BOARD
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,**

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Administrative & General	19	21	21	26	22	26	22	24	24	21
Engineering	9	8	7	9	8	10	12	9	11	8
Operations	27	23	24	20	21	20	26	28	25	28
Total	55	52	52	55	51	56	60	61	60	57

Source: KPUB personnel records

KERRVILLE PUBLIC UTILITY BOARD
OPERATING INDICATORS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Purchased electric energy:										
Purchases (kWh)	548,583,112	535,214,862	520,199,443	530,542,081	530,832,591	501,525,275	503,332,952	528,997,459	526,606,827	494,069,520
Purchased Power Cost per kWh	\$ 0.0577	\$ 0.0530	\$ 0.0528	\$ 0.0517	\$ 0.0545	\$ 0.0533	\$ 0.0436	\$ 0.0551	\$ 0.0497	\$ 0.0503
Line loss percentage	5%	8%	4%	5%	6%	7%	5%	6%	7%	7%
Energy sales:										
Residential										
kWh sales	294,876,808	277,808,248	282,945,332	278,703,036	272,787,300	245,964,874	255,942,839	269,571,423	271,751,425	243,190,541
Average kWh/customer	14,814	14,073	14,553	14,606	14,327	13,044	13,639	14,765	14,864	13,372
Average energy revenue per kWh	\$ 0.0893	\$ 0.0861	\$ 0.0847	\$ 0.0837	\$ 0.0865	\$ 0.0871	\$ 0.0722	\$ 0.0878	\$ 0.0741	\$ 0.0828
Average annual billing/customer	\$ 1,323	\$ 1,212	\$ 1,233	\$ 1,223	\$ 1,240	\$ 1,136	\$ 984	\$ 1,296	\$ 1,107	\$ 1,107
Customers, end of year	19,905	19,741	19,443	19,081	19,040	18,856	18,765	18,258	18,283	18,187
Customer increase (decrease) net	164	298	362	41	184	91	507	(25)	96	124
Commercial										
kWh sales	226,215,537	213,054,009	213,949,575	226,236,092	227,276,419	220,700,398	223,974,693	226,314,150	224,641,449	217,784,037
Average kWh/customer	56,245	53,370	55,384	57,817	57,861	57,699	58,449	60,463	59,904	58,200
Average energy revenue per kWh	\$ 0.0847	\$ 0.0851	\$ 0.0811	\$ 0.0781	\$ 0.0782	\$ 0.0785	\$ 0.6667	\$ 0.0805	\$ 0.0755	\$ 0.0755
Customers, end of year	4,022	3,992	3,863	3,913	3,928	3,825	3,832	3,743	3,750	3,742
Customer increase (decrease) net	30	129	(50)	(15)	103	(7)	89	(7)	8	9
Total										
kWh sales	521,092,345	490,862,257	496,894,907	504,939,128	500,063,719	466,665,272	479,917,532	495,885,573	496,392,874	460,974,578
Average energy revenue per kWh	\$ 0.0873	\$ 0.0857	\$ 0.0832	\$ 0.0812	\$ 0.0827	\$ 0.0830	\$ 0.0696	\$ 0.0845	\$ 0.0784	\$ 0.0793
Customers, end of year	23,927	23,733	23,306	22,994	22,968	22,681	22,597	22,207	22,033	21,929
Annual load factor	40.63%	34.61%	46.10%	47.01%	41.45%	37.11%	47.91%	47.43%	44.01%	46.03%
Peak demand (MW)	148.439	165.519	129.400	124.351	143.340	139.893	119.476	124.347	133.508	119.846

Source: KPUB audited financial statements, billing registers, power supply invoices, Engineering department metrics

**KERRVILLE PUBLIC UTILITY BOARD
CAPITAL ASSETS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,**

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Electric Distribution:										
Number of Substations	9	9	9	9	9	9	9	9	9	9
Miles of Distribution Lines	687	683	678	671	667	664	662	660	659	659
System Capacity	279,300 kVA	279,300 kVA	279,300 kVA	279,300 kVA	279,300 kVA	279,300 kVA	279,300 kVA	267,400 kVA	256,900 kVA	256,900 kVA

Source: KPUB engineering records

**KERRVILLE PUBLIC UTILITY BOARD
ADDITIONS TO UTILITY PLANT
LAST TEN FISCAL YEARS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,**

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Distribution Plant	\$ 3,458,402	\$ 5,082,280	\$ 3,611,072	\$ 7,498,073	\$ 2,516,849	\$ 3,757,757	\$ 4,266,446	\$ 3,425,626	\$ 2,594,607	\$ 1,601,489
General Plant	1,107,696	1,372,183	1,024,694	1,720,832	1,074,407	1,181,113	703,935	616,656	733,986	653,370
Total Additions	<u>\$ 4,566,098</u>	<u>\$ 6,454,463</u>	<u>\$ 4,635,766</u>	<u>\$ 9,218,905</u>	<u>\$ 3,591,256</u>	<u>\$ 4,938,870</u>	<u>\$ 4,970,381</u>	<u>\$ 4,042,282</u>	<u>\$ 3,328,593</u>	<u>\$ 2,254,859</u>

Note: KPUB funds Construction Work in Progress with currently generated funds on a monthly basis and transfers costs to permanent fixed asset accounts when individual work orders are closed. The timing of construction and subsequent closing of work orders is such that a given work order may be transferred to the fixed asset accounts in a fiscal year subsequent to the year in which the funds were spent for construction. The Statement of Cash Flows reflects additions to Construction Work in Progress annually. This schedule reflects additions to the fixed asset accounts as work orders are closed and capitalized.

Source: KPUB fixed asset ledger