



***Bryan Texas Utilities***

**Rural Electric System**

# **Annual Financial Report**

For the Fiscal Years Ended September 30, 2020 and 2019

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**Bryan Texas Utilities**  
**Rural Electric System**  
**An Enterprise Fund of the City of Bryan**  
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For the Fiscal Years Ended September 30, 2020 and 2019

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**Bryan Texas Utilities  
Rural Electric System  
An Enterprise Fund of the City of Bryan**

**Introduction**

Bryan Texas Utilities (BTU) is pleased to present the Annual Financial Report for the fiscal years ended September 30, 2020 and 2019. This report is published to provide the BTU Board of Directors (Board), the City of Bryan, the Bondholders, representatives of financial institutions, and other interested parties detailed information concerning the financial condition of BTU.

BTU is an enterprise activity of the City of Bryan, Texas. BTU operates a “City” and “Rural” electric system, (the “City Electric System” and the “Rural Electric System”, respectively). Each system, while operated by a common staff, is maintained separately for internal and external accounting and reporting purposes. BTU’s Rural Electric System purchases all of its energy from the City Electric System. BTU’s common staff is employed by the City Electric System and is either direct billed to the Rural Electric System or is billed through the City Electric System’s wholesale rates. Generally, all power supply, regulatory charges, customer service and administrative services are billed through wholesale rates, while distribution services are direct billed. Wholesale rates from the City Electric System and the Rural Electric System’s retail rates are established through City of Bryan ordinance. The accompanying financial statements present only the Rural Electric System and are not intended to present the financial position or results of operations of the City Electric System or the City of Bryan, Texas.

The Rural Electric System provides electric service to the immediate rural area outside the City of Bryan extending to most of Brazos County, service adjacent to and including portions of the City of College Station, and parts of Burleson, and Robertson counties in a radius of nearly 20 miles from the City of Bryan.

The Rural Electric System is managed by the General Manager with oversight by the BTU Board of Directors. The BTU Board, established on June 12, 2001, is appointed by the Bryan City Council and is empowered with oversight of BTU. The Bryan City Council retains authority for approval of the annual budget, rates for electric service, condemnations, debt financing and the purchase of real property.

BTU management has prepared and is responsible for the financial statements and related information included in this report. Management believes that the policies and procedures in place provide guidance and reasonable assurance that the Rural Electric System operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the net position, changes in net position and cash flows of the Rural Electric System in conformity with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the Rural Electric System of Bryan Texas Utilities (BTU), an enterprise fund of the City of Bryan, Texas, as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Rural Electric System of BTU's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Electric System of Bryan Texas Utilities as of September 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Rural Electric System of BTU, and do not purport to, and do not, present fairly the financial position of the City Electric System of BTU or City of Bryan, Texas, as of September 30, 2020 and 2019, the changes in its financial position or, where applicable its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rural Electric System of BTU's basic financial statements. The introduction section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introduction section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***BKD, LLP***

Houston, Texas  
January 13, 2021

**Bryan Texas Utilities  
Rural Electric System  
An Enterprise Fund of the City of Bryan**

**Management's Discussion and Analysis**

This discussion and analysis of the Rural Electric System financial performance provides an overview of financial activities for the years ended September 30, 2020 (FY2020) and 2019 (FY2019). Please read this information in conjunction with the accompanying financial analysis, the financial report, and the notes to financial statements.

**Overview of Annual Financial Report**

The financial statements report information about the Rural Electric System using accrual accounting methods as utilized by similar business activities in the private sector. The Rural Electric System annual reporting period ("fiscal year") ends September 30.

The Statements of Net Position include the Rural Electric System assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for the evaluation of capital structure, liquidity, and flexibility of the Rural Electric System.

The Statements of Revenues, Expenses and Changes in Net Position present the results of the business activities (revenues and expenses) over the course of the fiscal year and can provide information about the Rural Electric System recovery of its costs.

The Statements of Cash Flows present cash receipts, cash disbursements and net changes in cash resulting from operating, financing and investing activities. This statement provides information such as where cash came from, what cash was used for and what the changes in cash balances were during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Rural Electric System accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

**Bryan Texas Utilities  
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An Enterprise Fund of the City of Bryan**  
Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2020 and 2019

**Condensed Statements of Net Position**

	<b>September 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 26,546,016	\$ 22,673,044	\$ 18,472,305
Capital assets, net	105,275,082	91,843,761	81,448,658
Restricted assets	6,248,846	17,234,122	4,552,080
Total assets	138,069,944	131,750,927	104,473,043
Current liabilities	5,329,290	6,135,558	8,829,322
Current liabilities payable from restricted assets	4,660,261	6,470,853	5,011,311
Non-current liabilities	35,591,170	37,230,606	20,826,015
Total liabilities	45,580,721	49,837,017	34,666,648
Deferred inflows of resources	13,339,925	12,782,730	10,098,799
Net position:			
Net investment in capital assets	56,659,412	51,233,746	49,478,844
Restricted	692,758	671,828	585,769
Unrestricted	21,797,128	17,225,606	9,642,983
Total net position	<u>\$ 79,149,298</u>	<u>\$ 69,131,180</u>	<u>\$ 59,707,596</u>

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

	<b>Fiscal Year Ended September 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Operating revenues	\$ 45,850,000	\$ 47,539,897	\$ 48,935,501
Operating expenses	34,944,295	37,281,549	45,472,708
Operating income	10,905,705	10,258,348	3,462,793
Investment income	448,538	740,837	125,977
Interest expense	1,336,125	1,575,601	716,728
Change in net position	10,018,118	9,423,584	2,872,042
Net position, beginning of period	69,131,180	59,707,596	56,835,554
Net position, end of period	<u>\$ 79,149,298</u>	<u>\$ 69,131,180</u>	<u>\$ 59,707,596</u>

**Bryan Texas Utilities**  
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**Customer Count**

**FY2020** - The Rural Electric System's retail customer base of 22,911 increased by 863 customers, or 3.9%, compared to FY2019. The economy in the local area continues to grow which has caused the Rural Electric System's service load to expand; especially, in new subdivisions south of the City of College Station service area and in surrounding areas of Brazos County.

**FY2019** - The Rural Electric System's retail customer base of 22,048 increased by 411 customers, or 1.9%, compared to FY2018. The economy in the local area continues to grow which has caused the Rural Electric System's service load to expand; especially, in new subdivisions south of the City of College Station service area and in surrounding areas of Brazos County.

**Retail Sales**

**FY2020** - Retail energy sales of 448,905 MWh decreased by 4,849 MWh, or 1.0%, compared to FY2019; due primarily to lower usage rates caused by the negative impacts of the Coronavirus disease (COVID-19) pandemic (COVID).

**FY2019** - Retail energy sales of 453,754 MWh decreased by 3,696 MWh, or 0.8%, compared to FY2018; due primarily to milder weather during the fiscal year ended September 30, 2019.

**Operating Revenue**

**FY2020** - Operating revenues of \$45,850,000 were \$1,689,897, or 3.6%, below the FY2019 total of \$47,539,897. The decrease was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Base revenue (customer growth)	\$ 1.4
Fuel rate reduction	(2.6)
Regulatory rate increase	0.9
Estimated impact of COVID on sales	(1.6)
All other	0.2
Total	<u><u>\$ (1.7)</u></u>

**FY2019** - Operating revenues of \$47,539,897 were \$1,395,604, or 2.9%, below the FY2018 total of \$48,935,501. The decrease was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Base revenue (customer growth)	\$ 0.5
Fuel revenue (lower rates & weather impacts)	(1.0)
Regulatory revenue (lower rates)	(0.5)
All other	(0.5)
Total	<u><u>\$ (1.5)</u></u>

**Bryan Texas Utilities  
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Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2020 and 2019

## Operating Expenses

**FY2020** - Operating expenses of \$34,944,295 were \$2,337,254, or 6.3%, below the FY2019 total of \$37,281,549. The decrease was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Decreased fuel costs	\$ (2.5)
Decreased regulatory charges	0.9
Lower departmental operating & maintenance costs	(0.7)
	<u>\$ (2.3)</u>

**FY2019** - Operating expenses of \$37,281,549 were \$8,191,159, or 18.0%, below the FY2018 total of \$45,472,708. The decrease was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Base purchased power costs (lower rate from City Electric System)	\$ (8.7)
Decreased fuel costs (lower rates & weather impacts)	(1.0)
Decreased regulatory charges	(0.5)
Lower departmental operating & maintenance costs	1.7
All other	0.3
	<u>\$ (8.2)</u>

## Capital Assets

**FY2020** - Net utility plant at September 30, 2020, of \$105,275,082 was \$13,431,321, or 14.6%, higher than the balance of \$91,843,761 at September 30, 2019. The increase in capital assets was primarily the result of construction expenditures supporting continued customer growth.

**FY2019** - Net utility plant at September 30, 2019, of \$91,843,761 was \$10,395,103, or 12.8%, higher than the balance of \$81,448,658 at September 30, 2018. The increase in capital assets was primarily the result of construction expenditures supporting continued customer growth.

## Net Position

**FY2020** - Net position at September 30, 2020, was \$79,149,298, of which \$21,797,128 was available to meet the Rural Electric System's ongoing obligations. The change in net position for the fiscal year ended September 30, 2020, was \$10,018,118.

**FY2019** - Net position at September 30, 2019, was \$69,131,180, of which \$17,225,606 was available to meet the Rural Electric System's ongoing obligations. The change in net position for the fiscal year ended September 30, 2019, was \$9,423,584.

**Bryan Texas Utilities  
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Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2020 and 2019

## **Significant Events**

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

The City did not issue debt for the Rural Electric System in the fiscal year ended September 30, 2020.

At September 30, 2020, there was \$35,225,000 of Rural Electric System long-term debt, consisting of revenue bonds and certificates of obligation payable from revenues of the Rural Electric System.

At September 30, 2019, there was \$36,720,000 of Rural Electric System long-term debt, consisting of revenue bonds and certificates of obligation payable from revenues of the Rural Electric System.

For the fiscal year ended September 30, 2019, the City of Bryan issued revenue bonds dated November 15, 2018 ("2018 Revenue Bonds") totaling \$17,320,000 for the Rural Electric System. The 2018 Revenue Bonds mature serially beginning July 1, 2020, through July 1, 2043, with coupon rates ranging from 4.0% to 5.0%. The proceeds from the sale of the 2018 Revenue Bonds were restricted to the acquisition or construction of improvements, additions, or extensions to the Rural Electric System, including facilities for the generation, transmission, or distribution of electric power and energy, and capital assets, facilities and equipment incident and related to the operation, maintenance, or administration of the Rural Electric System. The Rural Electric System did not issue debt in the fiscal year ended September 30, 2018.

### **Rates –**

On January 1, 2020, BTU implemented retail rate changes to its power supply adjustment and regulatory charges. The Rural Electric System power supply adjustment decreased by 8.5% to account for lower purchased power costs. The Rural Electric System's regulatory charges increased by 25% due to increases in ERCOT system-wide transmission cost of service expenses. The overall effect of these changes increased retail rates by 0.1%, on average. The Rural Electric System also reduced its power supply adjustment by 50% for the months of April 2020 through June 2020 to provide relief to customers stemming from the COVID pandemic.

On October 1, 2018, the Rural Electric System wholesale base rate from the City Electric System decreased by 38% to reflect capacity cost reductions from TMPA. This change was implemented after completion of a cost-of-service and rate study during fiscal year 2018.

### **Other –**

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

**Bryan Texas Utilities**  
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Management's Discussion and Analysis - continued  
For the Fiscal Years Ended September 30, 2020 and 2019

Subsequent Events –

There are no significant subsequent events requiring disclosure under generally accepted accounting principles as of the date of the audited financial report.

**Requests for Information**

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

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BTU General Manager:  
Gary Miller

BTU Executive Directors:  
Randy Trimble  
David Werley  
Wes Williams

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

**Bryan Texas Utilities  
Rural Electric System  
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Statements of Net Position  
At September 30, 2020 and 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 17,402,404	\$ 3,369,017
Investments	3,547,733	13,770,952
Accounts receivable	5,168,593	5,323,475
Less allowance for uncollectible accounts	(59,809)	(84,618)
Under-recovered regulatory fee	487,095	294,218
Total current assets	<u>26,546,016</u>	<u>22,673,044</u>
Non-current assets:		
Restricted assets:		
Investments	6,248,846	17,234,122
Capital assets	147,090,167	130,116,048
Less accumulated depreciation	<u>(41,815,085)</u>	<u>(38,272,287)</u>
Total noncurrent assets	<u>111,523,928</u>	<u>109,077,883</u>
Total assets	<u>\$ 138,069,944</u>	<u>\$ 131,750,927</u>

The accompanying notes are an integral part of the financial statements

**Bryan Texas Utilities  
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Statements of Net Position - continued  
At September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b><u>Liabilities</u></b>		
Current liabilities:		
Accounts payable	\$ 1,564,139	\$ 2,566,900
Accrued liabilities	10,510	8,530
Due to other funds	3,645,308	3,438,992
Other current liabilities	<u>109,333</u>	<u>121,136</u>
Total current liabilities	<u>5,329,290</u>	<u>6,135,558</u>
Current liabilities payable from restricted assets:		
Accrued interest	337,045	383,392
Over-recovered fuel	1,224,610	3,058,215
Bonds - current portion	1,540,000	1,495,000
Customer deposits	<u>1,558,606</u>	<u>1,534,246</u>
Total current liabilities payable from restricted assets	<u>4,660,261</u>	<u>6,470,853</u>
Non-current liabilities:		
Bonds payable	33,685,000	35,225,000
Bond premiums	<u>1,906,170</u>	<u>2,005,606</u>
Total noncurrent liabilities	<u>35,591,170</u>	<u>37,230,606</u>
Total liabilities	<u><u>\$ 45,580,721</u></u>	<u><u>\$ 49,837,017</u></u>
<b><u>Deferred Inflows of Resources</u></b>		
Deferred regulatory liability	<u><u>\$ 13,339,925</u></u>	<u><u>\$ 12,782,730</u></u>
<b><u>Net Position</u></b>		
Net investment in capital assets	56,659,412	51,233,746
Restricted for debt service	692,758	671,828
Unrestricted	<u>21,797,128</u>	<u>17,225,606</u>
Total net position	<u><u>\$ 79,149,298</u></u>	<u><u>\$ 69,131,180</u></u>

The accompanying notes are an integral part of the financial statements

**Bryan Texas Utilities  
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Statements of Revenues, Expenses  
And Changes in Net Position  
For the Fiscal Years Ended September 30, 2020 and 2019

	<u><b>FY2020</b></u>	<u><b>FY2019</b></u>
Operating revenues:		
Electrical system	\$ 45,850,000	\$ 47,539,897
Total operating revenues	<u>45,850,000</u>	<u>47,539,897</u>
Operating expenses:		
Personnel services	697,170	742,588
Electric operations	28,987,523	31,550,469
Maintenance	1,591,891	1,498,169
General and administrative	207,022	179,625
Depreciation	<u>3,460,689</u>	<u>3,310,698</u>
Total operating expenses	<u>34,944,295</u>	<u>37,281,549</u>
Operating income	10,905,705	10,258,348
Non-operating revenues (expenses):		
Investment income	448,538	740,837
Interest expense	<u>(1,336,125)</u>	<u>(1,575,601)</u>
Total non-operating expenses	<u>(887,587)</u>	<u>(834,764)</u>
Change in net position	10,018,118	9,423,584
Net position, beginning of period	<u>69,131,180</u>	<u>59,707,596</u>
Net position, end of period	<u><u>\$ 79,149,298</u></u>	<u><u>\$ 69,131,180</u></u>

The accompanying notes are an integral part of the financial statements

**Bryan Texas Utilities  
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Statements of Cash Flows  
For the Fiscal Years Ended September 30, 2020 and 2019

	<u><b>FY2020</b></u>	<u><b>FY2019</b></u>
<b><u>Cash flows from operating activities</u></b>		
Receipts from customers	\$ 45,987,714	\$ 48,241,386
Payments to suppliers	(35,430,280)	(34,128,838)
Payments to employees	(695,190)	(766,971)
	<u>9,862,244</u>	<u>13,345,577</u>
Net cash provided by operating activities		
<b><u>Cash flows from capital and related financing activities</u></b>		
Purchases of capital assets	(14,508,981)	(13,268,027)
Proceeds from capital debt	-	17,994,471
Principal paid on capital debt	(1,495,000)	(1,045,000)
Interest paid on capital debt	(1,481,908)	(1,170,792)
Bond issuance costs	-	(294,471)
	<u>(17,485,889)</u>	<u>2,216,181</u>
Net cash provided by (used by) capital and related financing activities		
<b><u>Cash flows from investing activities</u></b>		
Proceeds from sales and maturities of investments	56,896,224	30,304,968
Purchases of investments	(35,401,578)	(47,799,780)
Interest and dividends received	162,386	149,236
	<u>21,657,032</u>	<u>(17,345,576)</u>
Net cash provided by (used by) investing activities		
Net increase (decrease) in cash and cash equivalents	14,033,387	(1,783,818)
Balance-beginning of the year	<u>3,369,017</u>	<u>5,152,835</u>
Balance-end of the year	<u><u>\$ 17,402,404</u></u>	<u><u>\$ 3,369,017</u></u>

The accompanying notes are an integral part of the financial statements

**Bryan Texas Utilities**  
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Statements of Cash Flows - continued  
For the Fiscal Years Ended September 30, 2020 and 2019

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

	<u><b>FY2020</b></u>	<u><b>FY2019</b></u>
Operating income	\$ 10,905,705	\$ 10,258,348
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,460,689	3,310,698
Bad debts	16,719	23,790
Loss on disposal of assets	-	419,361
Change in assets and liabilities:		
Accounts receivable	113,354	(309,758)
Under-recovered regulatory fee	(192,877)	(294,218)
Accounts payable	(906,847)	1,536,019
Accrued liabilities	1,980	(24,383)
Over-recovered fuel	(1,833,605)	976,795
Over-recovered regulatory fees	-	(206,924)
Customer deposits	24,360	34,454
Due to other funds	(1,727,235)	(2,378,605)
Net cash provided by operating activities	<u><u>\$ 9,862,244</u></u>	<u><u>\$ 13,345,577</u></u>

**Noncash Investing, Capital and Financing Activities**

	<u><b>FY2020</b></u>	<u><b>FY2019</b></u>
Capital asset acquisitions included in accounts payable	\$ 580,403	\$ 255,745

The accompanying notes are an integral part of the financial statements

**Bryan Texas Utilities**  
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Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2020 and 2019

1. Summary of Significant Accounting Policies

Reporting Entity - Bryan Texas Utilities (BTU) is a municipally owned utility system that operates as an enterprise activity of the City of Bryan, Texas. BTU operates a city and rural electric system, (the “City Electric System” and the “Rural Electric System”, respectively). Each system, while operated by a common staff, is maintained separately for accounting and reporting purposes. The Rural Electric System is the reporting entity. These financial statements present only the Rural Electric System and are not intended to present the financial position of BTU’s City Electric System or the City of Bryan, Texas (the “City”) nor the results of their operations and cash flows in conformity with generally accepted accounting principles.

Financial Statements - The financial statements for the Rural Electric System (a proprietary fund) are reported using the economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Statement of Revenues, Expenses and Changes in Net Position distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Operating expenses for the Rural Electric System include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Basis of Accounting - The Rural Electric System is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Accounting records are maintained in accordance with accounting principles generally accepted in the United States of America. The Rural Electric System prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

New Accounting Pronouncements, Changes in Accounting Principles –

For the fiscal year ended September 30, 2020, the Rural Electric System adopted the following accounting pronouncements:

GASB Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

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GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

GASB Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The implementation of GASB Statements No. 84, No. 90, and No. 95 did not have a significant impact on the Rural Electric System's financial statements.

The following guidance issued by GASB is effective for years following the fiscal year ended September 30, 2020 and is expected to be applicable to the Rural Electric System:

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

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GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2021.

GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about various statements. The requirements of this statement are effective for reporting periods beginning after June 15, 2021 and upon issuance of Statement 87.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, *Leases*, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap

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- Clarifying the definition of reference rate, as it is used in Statement 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend

The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The requirements of this statement are effective for reporting periods beginning June 15, 2022.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary

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fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

**Restricted Funds**

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

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

**Utility Revenues, Fuel Recovery, and Regulatory Recovery** - Customers are billed on the basis of monthly cycle billings. At fiscal year end, the Rural Electric System accrues estimated unbilled revenues (excluding fuel). These unbilled revenues, which are included in accounts receivable, amounted to \$1,823,958 and \$1,829,328 at September 30, 2020 and 2019, respectively. The Rural Electric System is allowed to recover purchased power cost through fuel revenue rates. The difference between fuel revenues billed and fuel expense incurred is recorded as an addition or a reduction to fuel and purchased power expense, with a corresponding entry to accounts payable – over-recovered fuel or accounts receivable – under-recovered fuel, whichever is appropriate. At September 30, 2020 and 2019, the Rural Electric System reflected a current liability – over-recovered fuel of \$1,224,610 and \$3,058,215, respectively.

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The difference between regulatory revenue billed and regulatory expense incurred is recorded as an addition or a reduction to regulatory charge expense, with a corresponding entry to accounts payable – over-recovered regulatory fee or accounts receivable – under-recovered regulatory fee, whichever is appropriate. At September 30, 2020 and 2019, the Rural Electric System reported a current asset – under-recovered regulatory fee of \$487,095 and \$294,218, respectively.

Capital Assets - Capital assets are stated at the historical cost. Also, to the extent the construction is performed by the Rural Electric System, the cost includes payroll and related costs and certain general and administrative expenses. Assets constructed utilizing funds collected from customers and developers as contributions of aid in construction (AIC) are also capitalized. Interest is not capitalized in these accounts because interest is recovered concurrently in the utility rate structure. Maintenance, repairs and minor replacements are charged to operating expense, while major property replacements are capitalized. Except for certain assets that may become impaired, the cost of depreciable plant retired, plus removal cost and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, any losses associated with capital asset impairments will be charged to operations, not accumulated depreciation. Depreciation is recorded on a straight-line basis over estimated service lives ranging from 5 to 33 years.

Cash and Cash Equivalents – For purposes of cash flows, the Rural Electric System considers all highly liquid investments with an original maturity of three months or less to be cash equivalents, except for balances in the investment pools which are reported as investments.

Bond Issuance Expenses - According to the financial reporting requirements of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, bond issuance expenses are to be expensed as incurred. Issuance expenses are reported on the Statements of Revenues, Expenses and Changes in Net Position in interest expense and totaled \$0 and \$294,471 for the fiscal years ended September 30, 2020 and 2019, respectively.

Deferred Regulatory Liability – To better align certain benefits received with BTU’s retail rate design, the Rural Electric System utilizes regulatory accounting treatment for the funds it collects from customers and developers as contributions of aid in construction (AIC) under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. The Rural Electric System recognizes AIC received as a deferred regulatory liability in the deferred inflows section of the Statements of Net Position. The deferred regulatory liability is amortized to accumulated depreciation over the life of the asset constructed.

During the fiscal years ended September 30, 2020 and 2019, the Rural Electric System collected \$1,008,724 and \$3,047,651, respectively, of AIC. The amortization of the deferred regulatory liability was \$451,529 and \$363,721 for 2020 and 2019 respectively.

## 2. Cash and Investments

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

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Deposits

State statutes require that all deposits in financial institutions be fully collateralized with depository insurance or by U.S. Government obligations or its agencies and instrumentalities; or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The Rural Electric System demand deposits for the fiscal years ended September 30, 2020 and 2019 were held at Branch Banking & Trust Company. These deposits were entirely covered by federal depository insurance or by collateral equal to at least 102% of the deposits. For deposits that were collateralized, the securities were in accordance with the Texas Public Funds Collateral Act.

Investments

The BTU investment program is guided by Texas state statutes, by various City ordinances, and by City of Bryan investment policy which amplifies those guidelines and prescribes how the Rural Electric System will operate its investment program in accordance with applicable laws and regulations. The City's policy, which was adopted on August 27, 2019 for the fiscal year ending September 30, 2020, sets forth (1) the basic principles governing the investment of funds; (2) the objectives of the investment program; and (3) the authority, responsibilities, limitations, documentation, and requirements to be used in the administration and operation of the investment program.

Investments authorized by the investment policy are subject to any limitations otherwise imposed by applicable law, regulations, bond indentures or other agreements, the Texas Government Code and the Public Funds Investment Act, Chapter 2256. These investments include the following:

- a. Direct obligations of the United States government or its agencies and instrumentalities;
- b. Debentures or discount notes issued by, guaranteed by, or for which the credit of any Federal Agencies and Instrumentalities is pledged for payment;
- c. Bonds or other obligations, the principal and interest of which is guaranteed by the full faith and credit of the United States;
- d. Certificates of Deposit issued by state and national banks within the State of Texas that are secured by obligations qualified as acceptable collateral;
- e. Repurchase agreements and reverse repurchase agreements are allowable only as part of a Public Investing Pool and in compliance with the Public Fund Investment Act limitations;
- f. Bankers Acceptances eligible for discounting with the Federal Reserve maturing within 90 days;
- g. Commercial Paper maturing within 365 days carrying a rating of A-1, P-1, F-1;
- h. Money Market Mutual Funds meeting each of the following criteria:
  - a. Is registered with and regulated by the Securities and Exchange Commission;

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- b. Provides the investing entity with a prospectus and other information required by the Securities and Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);
- c. Complies with federal Securities and Exchange Commission rule 2a-7 (17 C.F.R. Section 270.2a-7, Promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);
- d. Charges no commission fee on purchases or sales of shares;
- e. Has a maximum stated maturity of 13 months and dollar-weighted average stated maturity of no more than 90 days;
- f. Is rated "AAA" or its equivalent by a nationally recognized investment rating firm; and,
- g. Is comprised exclusively of investments as described in sections "A" through "H" above.

A list of Money Market Funds approved by the City of Bryan's Investment Officer, respectively, or their designee shall be kept by the City Secretary for the Investment Committee.

- i. Public Funds Investment Pools organized under the Texas Interlocal Cooperation Act that follow the requirements in the Public Funds Investment Act, and have been specifically approved by the Investment Committee through approved broker/dealers. A public funds investment pool must be continuously rated no lower than AAA or AAA-m, or at an equivalent rating by at least on nationally recognized rating service.
- j. Direct obligations of the State of Texas and any political subdivisions thereof which are rated as to investment quality by a nationally recognized investment rating firm not less than "AA" or its equivalent;
- k. Hedging contracts and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. "Hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuation. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. A payment under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and BTU shall credit any amounts it receives under the contract or agreement against fuel expenses.

The carrying value of the Rural Electric System's cash, cash equivalents and investments at September 30, 2020 and 2019 are summarized as follows:

	<u><b>2020</b></u>	<u><b>2019</b></u>
Demand deposits	\$ 17,402,404	\$ 3,369,017
Investments pools	6,235,383	28,951,624
Treasuries	-	997,540
Municipal Bonds	2,476,962	-
Agency securities	1,084,234	1,055,910
Total	<u><u>\$ 27,198,983</u></u>	<u><u>\$ 34,374,091</u></u>

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The Rural Electric System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72 provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The Rural Electric System has recurring fair value measurements as presented in the table below. The investment balances at September 30, 2020 are as follows:

	<u>Value at FYE</u>	<b>Fair Value Measurements</b>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Investments measured at net asset value (NAV)				
Investment Pools				
TexStar	\$ 666,912	\$ -	\$ -	\$ -
Texas CLASS	5,568,471	-	-	-
Investments by fair value level				
Municipal Bonds	2,476,962	-	2,476,962	-
U.S. Agency Bonds	1,084,234	-	1,084,234	-
Total	<u>\$ 9,796,579</u>	<u>\$ -</u>	<u>\$ 3,561,196</u>	<u>\$ -</u>

The Rural Electric System has recurring fair value measurements as presented in the table below. The investment balances at September 30, 2019 are as follows:

	<u>Value at FYE</u>	<b>Fair Value Measurements</b>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Investments measured at net asset value (NAV)				
Investment Pools				
TexStar	\$ 19,483,939	\$ -	\$ -	\$ -
Texas CLASS	9,467,685	-	-	-
Investments by fair value level				
Treasuries	997,540	997,540	-	-
U.S. Agency Bonds	1,055,910	-	1,055,910	-
Total	<u>\$ 31,005,074</u>	<u>\$ 997,540</u>	<u>\$ 1,055,910</u>	<u>\$ -</u>

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The investment in TexStar and Texas CLASS is measured at net asset value which approximates fair value. Investments recorded at net asset value are exempt from reporting in the fair value hierarchy. U.S. Government Agency Securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Municipal bonds classified in Level 2 of the fair value hierarchy are valued using the present value of expected future cash flows.

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

As of September 30, 2020, the Rural Electric System had the following investments:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>		
		<u>Less</u>	<u>1 - 5</u>	<u>Greater</u>
		<u>Than 1</u>		<u>Than 5</u>
Investment Pools	\$ 6,235,383	\$ 6,235,383	\$ -	\$ -
Municipal Bonds	2,476,962	1,390,392	1,086,570	-
U.S. Agency Bonds	1,084,234	-	1,084,234	-
Total fair value	<u>\$ 9,796,579</u>	<u>\$ 7,625,775</u>	<u>\$ 2,170,804</u>	<u>\$ -</u>

As of September 30, 2019, the Rural Electric System had the following investments:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>		
		<u>Less</u>	<u>1 - 5</u>	<u>Greater</u>
		<u>Than 1</u>		<u>Than 5</u>
Investment Pools	\$ 28,951,624	\$ 28,951,624	\$ -	\$ -
Treasuries	997,540	997,540	-	-
U.S. Agency Bonds	1,055,910	-	1,055,910	-
Total fair value	<u>\$ 31,005,074</u>	<u>\$ 29,949,164</u>	<u>\$ 1,055,910</u>	<u>\$ -</u>

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

TexStar is a local government investment pool created by local governments and administered by Hilltop Securities, and J.P. Morgan Investment Management, Inc, to invest funds on behalf of Texas political subdivisions. TexStar operates on a \$1.00 net asset value basis and allows same day or next day redemptions and deposits. Interest is allocated daily based on portfolio earnings and participant account balances. The Rural Electric System's investment in TexStar is stated at net asset value, which approximates fair value. The fair value of the Rural Electric System's investment is the same as the value of the pool shares. This pool is not managed by the Rural Electric System and the Rural Electric

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System does not possess securities that exist in either physical or book entry form. The investment in TexStar is rated AAAM by Standard and Poors. TexStar has a redemption notice of one day, no maximum transaction amount, and the investment pool authority cannot impose liquidity fees.

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

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

The intent of Texas CLASS is to operate on a \$1.00 net asset value basis. Texas CLASS allows same day or next day redemptions and deposits. Interest is allocated daily based on portfolio earnings and participant account balances. The portfolio is valued daily using the amortized cost valuation method. This pool is not managed by the Rural Electric System and the Rural Electric System does not possess securities that exist in either physical or book entry form. Texas CLASS is rated AAAM by Standard and Poors Global Ratings.

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

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

BTU’s investment policy limits investments in external investment pools to pools rated as to investment quality not less than “AAA” or “AAA-m” or an equivalent rating by at least one nationally recognized rating service. The investment policy limits investments in direct obligations of the State of Texas and any political subdivisions thereof which are rated as to investment quality by a nationally recognized investment rating firm not less than “AA” or its equivalent. Direct obligations of the United States government or its agencies and instrumentalities and bonds or other obligations, the principal and interest of which is guaranteed by the full faith and credit of the United States are permitted by the investment policy.

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The Rural Electric System's investments as of September 30, 2020 were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
Investment Pools	AAA-m	Standard & Poor's
Municipal Bonds	Aa2 to Aaa AA to AAA AA to AAA	Moody's Standard & Poor's Fitch
U.S. Agency Bonds	Aaa AA+ AAA	Moody's Standard & Poor's Fitch

*Custodial Credit Risk* – For deposits, custodial credit risk is the risk that in an event of a bank failure, the government's deposits may not be returned to it. Demand deposits held in BTU's name are required to be collateralized with securities equal to at least 102% of deposits held in a custodian bank, or be covered by federal depository insurance. For investments, this is the risk that in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. BTU's investment policy requires that all security transactions be conducted on a delivery versus payment basis and that all securities be held by a third party custodian and evidenced by safekeeping receipts.

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

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An Enterprise Fund of the City of Bryan**  
Notes to Financial Statements - continued  
For the Fiscal Years Ended September 30, 2020 and 2019

Restricted Cash and Investments

In 2020, cash and investments of \$27.2 million exceeded amounts required to be restricted by \$21.0 million.

Amounts required to be restricted at September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Debt service	\$ 671,003	\$ 693,020
Debt reserve	358,800	362,200
Bond funds for construction	2,435,827	11,586,441
Over-recovered fuel	1,224,610	3,058,215
Customer deposits	<u>1,558,606</u>	<u>1,534,246</u>
Restricted cash and investments	<u>\$ 6,248,846</u>	<u>\$ 17,234,122</u>

3. Capital Assets

General Description – Assets reflected in plant-in-service include distribution facilities.

Impairments – BTU annually evaluates capital assets as required by GASB Statement No. 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The statement provides guidance for determining if any assets have been impaired and for calculating the appropriate write-downs in value for any assets found to be impaired. An internal company-wide review of capital assets, in accordance with GASB 42, concluded that the Rural Electric System had no impaired capital assets at September 30, 2020.

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

**Bryan Texas Utilities**  
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Capital asset activity for the fiscal year ended September 30, 2020 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 115,524	\$ -	\$ -	\$ 115,524
Construction in Progress	8,423,729	16,122,505	7,651,322	16,894,912
Total capital assets, not being depreciated	8,539,253	16,122,505	7,651,322	17,010,436
Capital assets, being depreciated:				
Distribution Plant	106,843,757	7,651,322	157,110	114,337,969
General Plant	14,733,038	1,008,724	-	15,741,762
Total capital assets, being depreciated	121,576,795	8,660,046	157,110	130,079,731
Less accumulated depreciation for:				
Distribution Plant	36,380,148	3,413,339	369,421	39,424,066
General Plant	1,892,139	498,880	-	2,391,019
Total accumulated depreciation	38,272,287	3,912,219	369,421	41,815,085
Total capital assets, being depreciated, net	83,304,508	4,747,827	(212,311)	88,264,646
Total capital assets, net	\$ 91,843,761	\$ 20,870,332	\$ 7,439,011	\$ 105,275,082

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Notes to Financial Statements - continued  
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Capital asset activity for the fiscal year ended September 30, 2019 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 115,524	\$ -	\$ -	\$ 115,524
Construction in Progress	648,187	11,348,260	3,572,718	8,423,729
Total capital assets, not being depreciated	763,711	11,348,260	3,572,718	8,539,253
Capital assets, being depreciated:				
Distribution Plant	104,551,133	3,538,185	1,245,561	106,843,757
General Plant	11,681,523	3,051,892	377	14,733,038
Total capital assets, being depreciated	116,232,656	6,590,077	1,245,938	121,576,795
Less accumulated depreciation for:				
Distribution Plant	34,065,060	3,263,853	948,765	36,380,148
General Plant	1,482,649	410,565	1,075	1,892,139
Total accumulated depreciation	35,547,709	3,674,418	949,840	38,272,287
Total capital assets, being depreciated, net	80,684,947	2,915,659	296,098	83,304,508
Total capital assets, net	\$ 81,448,658	\$ 14,263,919	\$ 3,868,816	\$ 91,843,761

Depreciation expense for the fiscal year ended September 30, 2020 was \$3,460,689. Depreciation expense for the fiscal year ended September 30, 2019 was \$3,310,698. Amounts received for aid in construction are reflected in accumulated depreciation balances, but do not affect depreciation expense.

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4. Long-Term Debt

The City reserves the right at any time to merge the City Electric System and Rural Electric System into a single operating electric utility system. The merger of the Rural Electric System would not have an adverse impact on bondholders.

The Rural Electric System did not issue bonds in the 2020 fiscal year. For the fiscal year ended September 30, 2019, the City of Bryan issued revenue bonds dated November 15, 2018 ("2018 Revenue Bonds") totaling \$17,320,000 for the Rural Electric System. The 2018 Revenue Bonds mature serially beginning July 1, 2020, through July 1, 2043, with coupon rates ranging from 4.0% to 5.0%. The proceeds from the sale of the 2018 Revenue Bonds were restricted to the acquisition or construction of improvements, additions, or extensions to the Rural Electric System, including facilities for the generation, transmission, or distribution of electric power and energy, and capital assets, facilities and equipment incident and related to the operation, maintenance, or administration of the Rural Electric System.

In prior fiscal years, the Rural Electric System defeased certain outstanding revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Rural Electric System's financial statements. As of September 30, 2020 and 2019, no Rural Electric System outstanding revenue bonds were defeased.

At September 30, 2020, there was \$35,225,000 of Rural Electric System long-term debt, consisting of revenue bonds and certificates of obligation payable from revenues of the Rural Electric System.

Changes to long-term debt during fiscal year 2020, including current portion are as follows:

	<b>Interest Rates (%)</b>	<b>Series Matures</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due in One Year</b>
<u>Revenue Bonds:</u>							
Series 2011	4.000	2021	\$ 680,000	\$ -	\$ 335,000	\$ 345,000	\$ 345,000
Series 2016	2.000 - 5.000	2041	14,455,000	-	510,000	13,945,000	520,000
Series 2018	4.000 - 5.000	2043	17,320,000	-	410,000	16,910,000	430,000
Total Revenue Bonds			32,455,000	-	1,255,000	31,200,000	1,295,000
<u>Certificates of Obligation:</u>							
Series 2013	3.200 - 4.250	2033	4,265,000	-	240,000	4,025,000	245,000
Total Certificates of Obligation			4,265,000	-	240,000	4,025,000	245,000
Total long-term debt			\$ 36,720,000	\$ -	\$ 1,495,000	\$ 35,225,000	\$ 1,540,000

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

	<b>Interest Rates (%)</b>	<b>Series Matures</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due in One Year</b>
<u>Revenue Bonds:</u>							
Series 2011	3.000 - 4.000	2021	\$ 1,005,000	\$ -	\$ 325,000	\$ 680,000	\$ 335,000
Series 2016	2.000 - 5.000	2041	14,945,000	-	490,000	14,455,000	510,000
Series 2018	4.000 - 5.000	2043	-	17,320,000	-	17,320,000	410,000
Total Revenue Bonds			15,950,000	17,320,000	815,000	32,455,000	1,255,000
<u>Certificates of Obligation:</u>							
Series 2013	3.200 - 4.250	2033	4,495,000	-	230,000	4,265,000	240,000
Total Certificates of Obligation			4,495,000	-	230,000	4,265,000	240,000
Total long-term debt			\$ 20,445,000	\$ 17,320,000	\$ 1,045,000	\$ 36,720,000	\$ 1,495,000

All net revenues of the Rural Electric System are pledged for the payment of debt service of the revenue bonds. Net revenues, as defined by the bond resolution include all of the revenues and expenses of the Rural Electric System other than depreciation and amortization expenses. The bond resolutions further require that the net revenues, as defined, equal at least 1.20 times the annual debt service on all revenue bonds. The Rural Electric System complies with these requirements as of September 30, 2020 and 2019.

Under the terms of the revenue bond covenants, the Rural Electric System is required to maintain minimum reserve fund requirements equal to approximately one year of revenue bond debt service requirements. The reserve fund requirements may be satisfied by cash, a letter of credit or an insurance policy. The reserve fund requirement for the Series 2011 Bonds is satisfied with restricted funds, which are reported on the Rural Electric System's Statements of Net Position as restricted for debt service. The reserve fund requirement for the Series 2016 and 2018 Bonds are satisfied with insurance policies. There are no reserve fund requirements for the 2013 Certificates.

In the Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended September 30, 2020 and 2019, interest expense is recorded in the amount of \$1,336,125 and \$1,575,601, respectively, and is included as a non-operating expense.

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

<b><u>Revenue Bonds</u></b>			
<b><u>Year Ending</u></b>			
<b><u>September 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2021	\$ 1,295,000	\$ 1,268,150	\$ 2,563,150
2022	980,000	1,222,450	2,202,450
2023	1,030,000	1,173,450	2,203,450
2024	1,080,000	1,121,950	2,201,950
2025	1,130,000	1,067,950	2,197,950
2026 - 2030	6,560,000	4,439,400	10,999,400
2031 - 2035	7,695,000	2,931,050	10,626,050
2036 - 2040	7,570,000	1,577,250	9,147,250
2041 - 2043	3,860,000	279,200	4,139,200
Total	<u>\$ 31,200,000</u>	<u>\$ 15,080,850</u>	<u>\$ 46,280,850</u>

<b><u>Certificates of Obligation</u></b>			
<b><u>Year Ending</u></b>			
<b><u>September 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2021	\$ 245,000	\$ 160,059	\$ 405,059
2022	255,000	150,259	405,259
2023	260,000	140,059	400,059
2024	270,000	129,659	399,659
2025	280,000	121,019	401,019
2026 - 2030	1,585,000	434,694	2,019,694
2031 - 2033	1,130,000	96,713	1,226,713
Total	<u>\$ 4,025,000</u>	<u>\$ 1,232,462</u>	<u>\$ 5,257,462</u>

<b><u>Total Debt</u></b>			
<b><u>Year Ending</u></b>			
<b><u>September 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2021	\$ 1,540,000	\$ 1,428,209	\$ 2,968,209
2022	1,235,000	1,372,709	2,607,709
2023	1,290,000	1,313,509	2,603,509
2024	1,350,000	1,251,609	2,601,609
2025	1,410,000	1,188,969	2,598,969
2026 - 2030	8,145,000	4,874,094	13,019,094
2031 - 2035	8,825,000	3,027,763	11,852,763
2036 - 2040	7,570,000	1,577,250	9,147,250
2041 - 2043	3,860,000	279,200	4,139,200
Total	<u>\$ 35,225,000</u>	<u>\$ 16,313,312</u>	<u>\$ 51,538,312</u>

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5. Risk Management

The Rural Electric System is covered for risk of losses related to general liability and workers' compensation through the City's risk management program. The City has established an Insurance Fund whereby the costs of providing claims servicing and claims payment are funded by charging a premium to each City department based upon a percentage of estimated current year payroll and management's estimate of projected current costs. For the years ended September 30, 2020 and 2019, the Rural Electric System paid the City \$193,564 and \$167,524, respectively, for participation in the City's risk management program.

6. Related Party Transactions

BTU's Rural Electric System purchases all of its energy from the City Electric System. BTU's common staff is employed by the City Electric System and is either direct billed to the Rural Electric System or is billed through the City Electric System's wholesale rates. Generally, all power supply, regulatory charges, customer service, administrative services, and regulatory fees are billed through wholesale rates, while distribution services are direct billed. Wholesale rates from the City Electric System and the Rural Electric System's retail rates are established through City of Bryan ordinance. Fuel and regulatory rates may be adjusted monthly to reflect actual cost. For the fiscal years ended September 30, 2020 and 2019, the Rural Electric System's purchased power, fuel, and regulatory charges were the following:

	<b>FY2020</b>	<b>FY2019</b>
Purchased power cost	\$ 10,800,431	\$ 10,880,802
Fuel cost	14,128,872	13,863,294
Regulatory charges	5,979,346	5,386,196
Total	<u>\$ 30,908,649</u>	<u>\$ 30,130,292</u>

The Rural Electric System had payables to the City Electric System, as of September 30, 2020 and 2019, in the amount of \$3,645,308 and \$3,438,992 respectively.

7. Subsequent Events

There are no significant subsequent events requiring disclosure under generally accepted accounting principles as of the date of the audited financial report.