



*Bryan Texas Utilities*

Rural Electric System

**Annual Financial Report**

For the Fiscal Years Ended September 30, 2023 and 2022

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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, 2023 and 2022

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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, 2023 and 2022. 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 an ordinance of the City of Bryan. 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, as well as parts of Burleson and Robertson.

The Rural Electric System is managed by the General Manager with oversight by the City Manager and the Bryan City Council. The BTU Board, established on June 12, 2001, is appointed by the Bryan City Council and is empowered with limited oversight of contracts, power adjustment rates, and regulatory charges to customers. 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 the highest 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 the City of Bryan, Texas  
and Board of Directors of Bryan Texas Utilities

### Opinion

We have audited the financial statements 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, 2023 and 2022, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Rural Electric System of BTU as of September 30, 2023 and 2022, and the respective 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Rural Electric System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 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 the City of Bryan, Texas as of September 30, 2023 and 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

BTU's 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 the Rural Electric System'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.

Weaver and Tidwell, L.L.P.  
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### **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 opinion. 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 GAAS 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 GAAS, 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 Rural Electric System's 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 Rural Electric System'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 management's discussion and analysis on pages 5-11 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.

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

**Other Information Included in the Annual Report**

Management is responsible for the other information included in the annual report. The other information comprises the Introduction but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the 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.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Houston, Texas  
January 12, 2024

**Bryan Texas Utilities  
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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, 2023 (FY 2023) and 2022 (FY 2022). Please read this information in conjunction with the accompanying financial statements, 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 financial flexibility of the Rural Electric System.

The Statements of Revenues, Expenses and Changes in Net Position present the results of the business activities over the course of the fiscal year and can provide information about the Rural Electric System's 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 the financial statements. The notes present information about the Rural Electric System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

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Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2023 and 2022

**Condensed Statements of Net Position**

	<b>September 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Current assets	\$ 36,303,639	\$ 28,525,996	\$ 38,078,703
Capital assets, net	139,596,077	128,616,670	120,449,676
Restricted assets	<u>2,505,756</u>	<u>12,849,263</u>	<u>2,169,198</u>
Total assets	178,405,472	169,991,929	160,697,578
Current liabilities	2,110,859	5,311,009	7,516,189
Current liabilities payable from restricted assets	4,101,219	3,951,581	3,954,036
Non-current liabilities	<u>51,379,356</u>	<u>53,401,068</u>	<u>55,337,780</u>
Total liabilities	57,591,434	62,663,658	66,808,004
Deferred inflows of resources	14,636,049	14,408,310	13,998,559
Net position:			
Net investment in capital assets	70,369,880	68,751,415	48,294,155
Restricted	426,250	406,250	276,875
Unrestricted	<u>35,381,859</u>	<u>23,762,296</u>	<u>31,319,984</u>
Total net position	<u>\$ 106,177,989</u>	<u>\$ 92,919,962</u>	<u>\$ 79,891,014</u>



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

	<b>Fiscal Year Ended September 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Operating revenues	\$ 57,824,648	\$ 57,642,815	\$ 48,006,906
Operating expenses	<u>44,485,453</u>	<u>42,080,537</u>	<u>36,631,358</u>
Operating income	13,339,195	15,562,278	11,375,548
Investment income	1,227,254	332,425	125,113
Interest expense	(1,796,434)	(1,849,440)	(1,457,939)
Unrealized gain/(loss) on investments	<u>488,012</u>	<u>(1,016,315)</u>	<u>(56,427)</u>
Non-operating income/(expense)	(81,168)	(2,533,330)	(1,389,253)
Extraordinary item:			
2021 Winter Weather Event	<u>-</u>	<u>-</u>	<u>(9,244,578)</u>
Change in net position	13,258,027	13,028,947	741,716
Net position, beginning of period	<u>92,919,962</u>	<u>79,891,014</u>	<u>79,149,298</u>
Net position, end of period	<u><u>\$ 106,177,989</u></u>	<u><u>\$ 92,919,962</u></u>	<u><u>\$ 79,891,014</u></u>

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**Customer Count**

**FY 2023** - The Rural Electric System’s retail customer base of 24,855 increased by 625 customers, or 2.6%, compared to FY 2022. As the System’s growth continues, its service load continues to expand. Expansion in subdivisions south of the City of College Station, but within the Rural Electric System’s service territory, and in surrounding areas of Brazos County are increasing the service load.

**FY 2022** - The Rural Electric System’s retail customer base of 24,230 increased by 710 customers, or 3.0%, compared to FY 2021. As the System’s growth continues, its service load continues to expand. Expansion in subdivisions south of the City of College Station, but within the Rural Electric System’s service territory, and in surrounding areas of Brazos County are increasing the service load.

**Retail Sales**

**FY 2023** - Retail energy sales of 514,362 MWh increased by 11,106 MWh, or 2.2%, compared to FY 2022; due to continued growth in the region and increased economic activity following the COVID pandemic.

**FY 2022** - Retail energy sales of 503,256 MWh increased by 49,080 MWh, or 10.8%, compared to FY 2021; due to continued growth in the region and increased economic activity following the COVID pandemic.

**Operating Revenue**

**FY 2023** - Operating revenues of \$57,824,648 were \$181,833, or 0.3%, higher than the FY 2022 total of \$57,642,815. The increase was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Retail revenue from customer growth	\$ 1.5
Fuel rate increase (Full year in FY2023)	2.5
Regulatory rate increase (Full year in FY2023)	0.4
Lower net TMPA revenue due to mine sale in FY2022	(4.3)
Other impacts	0.1
	\$ 0.2

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**FY 2022** - Operating revenues of \$57,642,815 were \$9,635,909, or 20.1%, higher than the FY 2021 total of \$48,006,906. The increase was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Base, fuel, & regulatory revenue from customer growth	\$ 1.5
Fuel rate increase	0.5
Base, fuel, & regulatory due to extreme summer weather	4.1
Income from TMPA	4.3
All other	(0.8)
	\$ 9.6

**Operating Expenses**

**FY 2023** - Operating expenses of \$44,485,453 were \$2,404,916, or 5.7%, above the FY 2022 total of \$42,080,537. The increase was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Increased base & fuel power costs due to extreme summer weather	\$ 2.6
Increased regulatory wholesale rate charged from City	0.6
Lower departmental operating and maintenance expense	(1.2)
Other impacts	0.4
	\$ 2.4

**FY 2022** - Operating expenses of \$42,080,537 were \$5,449,179, or 14.9%, above the FY 2021 total of \$36,631,358. The increase was primarily attributable to the following activity:

	<b>Impact (\$ millions)</b>
Increased base & fuel power costs due to extreme summer weather	\$ 3.1
Increased regulatory wholesale rate charged from City	0.6
Higher departmental operating and maintenance expense	1.2
Other impacts	0.5
	\$ 5.4

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### Capital Assets

**FY 2023** - Net utility plant in service at September 30, 2023, of \$139,596,077 was \$10,979,406, or 8.5%, higher than the balance of \$128,616,671 at September 30, 2022. The increase in capital assets was primarily the result of customer distribution and feeder facilities construction supporting continued customer growth and reliability.

**FY 2022** - Net utility plant in service at September 30, 2022, of \$128,616,671 was \$8,166,995, or 6.8%, higher than the balance of \$120,449,676 at September 30, 2021. The increase in capital assets was primarily the result of customer distribution and feeder facilities construction supporting continued customer growth and reliability.

### Net Position

**FY 2023** - Net position at September 30, 2023, was \$106,177,989, of which \$35,381,859 was unrestricted and available to meet the Rural Electric System's ongoing obligations. The change in net position for the fiscal year ended September 30, 2023, was \$13,258,027.

**FY 2022** - Net position at September 30, 2022, was \$92,919,962, of which \$23,762,296 was unrestricted and available to meet the Rural Electric System's ongoing obligations. The change in net position for the fiscal year ended September 30, 2022, was \$13,028,947.

### Long-Term Debt

The City did not issue debt for the Rural Electric System in the fiscal years ended September 30, 2022 or 2023.

At September 30, 2023, there was \$46,460,000 and \$3,265,000 of Rural Electric System revenue bonds and certificates of obligation, respectively, outstanding payable from revenues of the Rural Electric System.

At September 30, 2022, there was \$47,955,000 and \$3,525,000 of Rural Electric System revenue bonds and certificates of obligation, respectively, outstanding payable from revenues of the Rural Electric System.

### Rates

The Rural Electric System did not change retail customer base, fuel, or regulatory rates in FY 2023.

On July 1, 2022, BTU implemented retail rate changes to its power supply adjustment and regulatory charges. The Rural Electric System power supply adjustment increased by 20% to account for higher purchased power costs. The Rural Electric System's regulatory charges increased by 13% due to increases in ERCOT system-wide transmission cost of service expenses. The overall effect of these changes increased retail rates by 6.9%, on average.

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**Subsequent Events**

There are no subsequent events for the Rural Electric System.

**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  
Doug Lyles

City of Bryan:  
Kean Register, City Manager  
William J. Smith, Chief Financial Officer

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Statement of Net Position  
At September 30, 2023 and 2022

<u>Assets</u>	<u>FY 2023</u>	<u>FY 2022</u>
Current assets:		
Cash and cash equivalents	\$ 14,423,095	4,669,896
Investments	13,041,152	14,497,947
Accounts receivable	6,669,424	5,303,411
Less allowance for uncollectible accounts	(157,559)	(151,966)
Under-recovered fuel	2,140,783	3,802,311
Under-recovered regulatory fee	186,743	404,396
Total current assets	<u>36,303,638</u>	<u>28,525,996</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	1,617,468	11,960,987
Investments	888,289	888,276
Capital assets	191,859,995	177,371,883
Less accumulated depreciation	<u>(52,263,918)</u>	<u>(48,755,212)</u>
Total noncurrent assets	<u>142,101,834</u>	<u>141,465,933</u>
Total assets	<u>\$ 178,405,472</u>	<u>\$ 169,991,929</u>

The accompanying notes are an integral part of the financial Statements

**Bryan Texas Utilities  
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Statement of Net Position - continued  
At September 30, 2023 and 2022

	<b>FY 2023</b>	<b>FY 2022</b>
<b><u>Liabilities</u></b>		
Current liabilities:		
Accounts payable	\$ 1,334,124	\$ 2,049,740
Due to other funds	776,735	3,261,269
Total current liabilities	2,110,859	5,311,008
Current liabilities payable from restricted assets:		
Accrued interest	462,039	482,026
Bonds Payable - net	2,021,712	1,936,712
Customer deposits	1,617,468	1,532,843
Total current liabilities payable from restricted assets	4,101,219	3,951,581
Non-current liabilities:		
Bonds payable - net	51,379,356	53,401,068
Total noncurrent liabilities	51,379,356	53,401,068
Total liabilities	\$ 57,591,434	\$ 62,663,658
<b><u>Deferred Inflows of Resources</u></b>		
Deferred regulatory liability	\$ 14,636,049	\$ 14,408,310
<b><u>Net Position</u></b>		
Net investment in capital assets	70,369,880	68,751,415
Restricted for debt service	426,250	406,250
Unrestricted	35,381,859	23,762,296
Total net position	\$ 106,177,989	\$ 92,919,962

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, 2023 and 2022

	<b>FY 2023</b>	<b>FY 2022</b>
Operating revenues:		
Electrical system	\$ 57,824,648	\$ 57,642,815
Total operating revenues	57,824,648	57,642,815
Operating expenses:		
Personnel services	651,839	638,668
Electric operations	37,742,016	34,486,499
Maintenance	1,136,511	2,375,442
General and administrative	310,160	364,003
Depreciation	4,644,927	4,215,925
Total operating expenses	44,485,453	42,080,537
Operating income	13,339,195	15,562,278
Non-operating revenues (expenses):		
Investment income	1,227,254	332,425
Interest expense	(1,796,434)	(1,849,440)
Unrealized gain/(loss) on investments	488,012	(1,016,315)
Total non-operating income/(expense)	(81,168)	(2,533,330)
Change in net position	13,258,027	13,028,947
Net position, beginning of period	92,919,962	79,891,014
Net position, end of period	\$ 106,177,989	\$ 92,919,962

The accompanying notes are an integral part of the financial Statements



**Bryan Texas Utilities**  
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Statement of Cash Flows  
For the Fiscal Years Ended September 30, 2023 and 2022

	<b>FY 2023</b>	<b>FY 2022</b>
<b><u>Cash flows from operating activities</u></b>		
Receipts from customers	\$ 56,570,208	\$ 57,466,663
Payments to suppliers	(38,353,759)	(38,096,293)
Payments to employees	(651,839)	(638,668)
Net cash provided by operating activities	17,564,610	18,731,702
<b><u>Cash flows from capital and related financing activities</u></b>		
Purchases of capital assets	(17,698,587)	(16,697,597)
Proceeds from capital debt	-	21,765,942
Principal paid on capital debt	(1,755,000)	(1,880,000)
Interest paid on capital debt	(1,634,710)	(1,873,519)
Net cash provided/(used) by capital and related financing	(21,088,297)	1,314,826
<b><u>Cash flows from investing activities</u></b>		
Proceeds from sales and maturities of investments	56,464,953	7,744,872
Purchases of investments	(54,255,452)	(21,053,806)
Interest and dividends received	723,866	454,538
Net cash provided/(used) by investing activities	2,933,367	(12,854,396)
Net increase/(decrease) in cash and cash equivalents	(590,320)	7,192,131
Balance-beginning of the year	16,630,883	9,438,752
Balance-end of the year	\$ 16,040,563	\$ 16,630,883

The accompanying notes are an integral part of the financial Statements

**Bryan Texas Utilities**  
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Statement of Cash Flows - continued  
For the Fiscal Years Ended September 30, 2023 and 2022

	<b>FY 2023</b>	<b>FY 2022</b>
Operating income	\$ 13,339,195	\$ 15,562,278
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,644,927	4,215,925
Bad debts	32,541	160,878
Change in assets and liabilities:		
Accounts receivable	(1,339,065)	(141,066)
Under-recovered regulatory fee	217,653	75,070
Accounts payable	(1,357,386)	234,310
Over-recovered fuel	1,661,528	(3,345,621)
Other current liabilities	-	(92,762)
Customer deposits	84,625	(35,085)
Due to other funds	280,592	2,097,775
Net cash provided by operating activities	<u>\$ 17,564,610</u>	<u>\$ 18,731,702</u>
<b>Noncash Investing, Capital and Financing Activities</b>	<b>FY 2023</b>	<b>FY 2022</b>
Capital asset acquisitions included in accounts payable	\$ 1,189,080	\$ 547,309

The accompanying notes are an integral part of the financial Statements

**Bryan Texas Utilities**  
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**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 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).

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New Accounting Pronouncements, Changes in Accounting Principles –

For the fiscal year ended September 30, 2023, the Rural Electric System adopted the following accounting pronouncements:

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 91 was implemented in the Rural Electric System’s fiscal year 2023 financial statements with no impact to amounts previously reported.

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 94 was implemented in the Rural Electric System’s fiscal year 2023 financial statements with no impact to amounts previously reported.

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

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prior to the implementation of this Statement. GASB 96 was implemented in the Rural Electric System's fiscal year 2023 financial statements with no impact to amounts previously reported.

The following guidance issued by GASB is effective for years following the fiscal year ended September 30, 2023 and is expected to be applicable to the Rural Electric System:

GASB Statement No. 99, Omnibus 2022. This Statement enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing 1) practice issues that have been identified during implementation and application of certain GASB statements and 2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases were implemented in the Rural Electric System's fiscal year 2022 financial statements in conjunction with GASB 87. The requirements related to PPPs and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. These requirements for GASB 99 were implemented in the Rural Electric System's fiscal year 2023 financial statements in conjunction with GASB 94 and GASB 96 as described in Note 1. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. These requirements for GASB 99 will be implemented in the Rural Electric System's fiscal year 2024 financial statements and the impact has not yet been determined.

GASB Statement No. 100, Accounting Changes and Error Corrections. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement 1) defines accounting changes and corrections of errors; 2) prescribes the accounting and financial reporting for each type of accounting change and error corrections; and 3) clarifies required note disclosures. The requirements of this statement are effective for reporting periods beginning after June 15, 2023, with earlier application encouraged. GASB 100 will be implemented in the Rural Electric System's fiscal year 2024 financial statements and the impact has not yet been determined.

GASB Statement No. 101, Compensated Absences. This Statement improves the information needs of financial statements users by updating the recognition and measurement guidance for compensated absences under a unified model and amending certain previously required disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2023, with earlier application encouraged. GASB 101 will be implemented in the Rural Electric System's fiscal year 2025 financial statements and the impact has not yet been determined.

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.

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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 \$2,626,018 and \$2,176,940 at September 30, 2023 and 2022, 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, 2023 and 2022, the Rural Electric System reflected a current asset - under-recovered fuel of \$2,140,783 and \$3,802,311, respectively.

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, 2023 and 2022, the Rural Electric System reported a current asset – under-recovered regulatory fee of \$186,743 and \$404,396, respectively.

Capital Assets - Capital assets are stated at 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.

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. See note 3 on page 28.

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. See note 2 on page 21.

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 for the fiscal years ended September 30, 2023 and 2022.

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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, 2023 and 2022, the Rural Electric System collected \$685,116 and \$860,010, respectively, of AIC. The amortization of the deferred regulatory liability was \$457,377 and \$450,630 for 2023 and 2022 respectively. The deferred regulatory liability balance at September 30, 2023 and September 30, 2022 is \$14,636,049 and \$14,408,310, 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 the City of Bryan’s investment policy. Investments are stated at fair value based on quoted market prices provided by the custodian.

### Deposits

State statutes require that all deposits in financial institutions be fully collateralized with depository insurance or by U.S. Government obligations or its agencies and instrumentalities; or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The Rural Electric System demand deposits for the fiscal years ended September 30, 2023 and 2022 were held at Truist. 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 the 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 July 28, 2022 for the fiscal year ending September 30, 2023, 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 Public Funds Investment Act, Chapter 2256. These investments include the following:

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- 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 guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund in 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:
  - 1. Is registered with and regulated by the Securities and Exchange Commission;
  - 2. 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.);
  - 3. 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.);
  - 4. Charges no commission fee on purchases or sales of shares;
  - 5. Has a maximum stated maturity of 13 months and dollar-weighted average stated maturity of no more than 90 days;
  - 6. Is rated “AAA” or its equivalent by a nationally recognized investment rating firm; and,
  - 7. 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 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. A public funds investment pool must be continuously rated no lower than AAA or AAA-m, or at an equivalent rating by at least one nationally recognized rating service.
- j. Direct obligations of states, agencies, counties, cities, and other political subdivisions of any state in the United States of America which are rated as to investment quality by a nationally recognized investment rating firm not less than “AA” or its equivalent.



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- 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, 2023 and 2022 are summarized as follows:

	<b>2023</b>	<b>2022</b>
Demand deposits	\$ 16,040,563	\$ 16,630,883
Investments pools	1,505,870	7,416,782
Municipal bonds	3,255,028	2,359,458
U.S. Agency Bonds	9,168,543	5,609,983
Total	\$ 29,970,004	\$ 32,017,106

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.

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The Rural Electric System has recurring fair value measurements as presented in the table below. The investment balances at September 30, 2023 are as follows:

	<b>Fair Value Measurements</b>			
	<b>Value at FYE</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
Investment Pools				
Texas Range	1,505,870	-	-	-
Municipal Bonds	3,255,028	-	3,255,028	-
U.S. Agency Bonds	9,168,543	-	9,168,543	-
	<u>\$ 13,929,441</u>	<u>\$ -</u>	<u>\$ 12,423,571</u>	<u>\$ -</u>

The Rural Electric System has recurring fair value measurements as presented in the table below. The investment balances at September 30, 2022 are as follows:

	<b>Fair Value Measurements</b>			
	<b>Value at FYE</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
Investment Pools				
TexSTAR	\$ 510,423	\$ -	\$ -	\$ -
Texas Range	6,906,359	-	-	-
Municipal Bonds	2,359,458	-	2,359,458	-
U.S. Agency Bonds	5,609,983	-	5,609,983	-
	<u>\$ 15,386,223</u>	<u>\$ -</u>	<u>\$ 7,969,441</u>	<u>\$ -</u>

The investments in TexSTAR and Texas RANGE are 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.

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As of September 30, 2023, the Rural Electric System had the following investments:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturity</u> <u>(in Years)</u>		
		<u>Less</u> <u>Than 1</u>	<u>1 - 5</u>	<u>Greater</u> <u>Than 5</u>
Investment Pools	\$ 1,505,870	\$ 1,505,870	\$ -	\$ -
Municipal Bonds	3,255,028	-	3,255,028	-
U.S. Agency Bonds	9,168,543	3,725,570	5,442,973	-
Total fair value	<u>\$ 13,929,441</u>	<u>\$ 5,231,440</u>	<u>\$8,698,001</u>	<u>\$ -</u>

As of September 30, 2022, the Rural Electric System had the following investments:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturity</u> <u>(in Years)</u>		
		<u>Less</u> <u>Than 1</u>	<u>1 - 5</u>	<u>Greater</u> <u>Than 5</u>
Investment Pools	\$ 7,416,782	\$ 7,416,782	\$ -	\$ -
Municipal Bonds	2,359,458	-	2,359,458	-
U.S. Agency Bonds	5,609,983	-	5,609,983	-
Total fair value	<u>\$ 15,386,223</u>	<u>\$ 7,416,782</u>	<u>\$7,969,441</u>	<u>\$ -</u>

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 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.

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Texas RANGE 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 the Texas RANGE pool. Texas RANGE operates three funds in which the Rural Electric System participates.

- Texas RANGE DAILY SELECT is an investment option that utilizes all eligible investments as defined by the Public Funds Investment Act.
- Texas RANGE DAILY is an investment option that utilizes only investments that are backed or collateralized with U.S. Treasury or U.S. Government Agency obligations.
- Texas RANGE TERM – is an investment with maturities from 60 days to one year with fixed-rate, fixed-term options.

The intent of Texas RANGE is to operate on a \$1.00 net asset value basis. Texas RANGE 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 Range Daily Select and Texas Range Daily are rated AAAMmf by Fitch Ratings. Texas Range Term is rated AAAf by Fitch 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.

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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.

The Rural Electric System’s investments as of September 30, 2023 were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
Investment Pools	AAA-m AAAf to AAAmmf	Standard & Poor's Fitch
Municipal Bonds	A2 to Aaa A- 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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Restricted Cash and Investments

In 2023, cash and investments of \$30.0 million exceeded amounts required to be restricted by \$27.5 million.

Amounts required to be restricted at September 30, 2023 and 2022 are as follows:

	<b>2023</b>	<b>2022</b>
Debt service	\$ 888,289	\$ 888,276
Bond funds for construction	-	10,428,143
Customer deposits	1,617,468	1,532,843
Restricted cash and investments	\$ 2,505,756	\$ 12,849,263

**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, 2023.

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Capital asset activity for the fiscal year ended September 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital assets, not being depreciated:</b>				
<b>Land</b>	\$ 122,769	\$ -	\$ -	\$ 122,769
<b>Construction in Progress</b>	<u>17,650,225</u>	<u>14,073,200</u>	<u>18,340,848</u>	<u>13,382,577</u>
<b>Total capital assets, not being depreciated</b>	17,772,994	14,073,200	18,340,848	13,505,346
<b>Capital assets, being depreciated:</b>				
<b>Distribution Plant</b>	141,901,027	18,318,935	259,624	159,960,338
<b>General Plant</b>	<u>17,697,862</u>	<u>696,450</u>	<u>-</u>	<u>18,394,312</u>
<b>Total capital assets, being depreciated</b>	159,598,890	19,015,385	259,624	178,354,650
<b>Less accumulated depreciation for:</b>				
<b>Distribution Plant</b>	45,124,945	4,644,927	1,593,598	48,176,274
<b>General Plant</b>	<u>3,630,267</u>	<u>457,377</u>	<u>-</u>	<u>4,087,644</u>
<b>Total accumulated depreciation</b>	<u>48,755,213</u>	<u>5,102,304</u>	<u>1,593,598</u>	<u>52,263,918</u>
<b>Total capital assets, being depreciated, net</b>	<u>110,843,677</u>	<u>13,913,081</u>	<u>(1,333,974)</u>	<u>126,090,732</u>
<b>Total capital assets, net</b>	<u>\$ 128,616,671</u>	<u>\$ 27,986,280</u>	<u>\$17,006,874</u>	<u>\$139,596,077</u>

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Capital asset activity for the fiscal year ended September 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital assets, not being depreciated:</b>				
<b>Land</b>	\$ 115,524	\$ 7,245	\$ -	\$ 122,769
<b>Construction in Progress</b>	22,694,964	11,541,388	16,586,126	17,650,225
<b>Total capital assets, not being depreciated</b>	22,810,488	11,548,633	16,586,126	17,772,994
<b>Capital assets, being depreciated:</b>				
<b>Distribution Plant</b>	126,158,874	16,586,126	843,973	141,901,027
<b>General Plant</b>	16,837,852	860,010		17,697,862
<b>Total capital assets, being depreciated</b>	142,996,726	17,446,136	843,973	159,598,889
<b>Less accumulated depreciation for:</b>				
<b>Distribution Plant</b>	42,513,987	3,879,467	1,268,509	45,124,945
<b>General Plant</b>	2,843,550	786,717	-	3,630,267
<b>Total accumulated depreciation</b>	45,357,537	4,666,185	1,268,509	48,755,212
<b>Total capital assets, being depreciated, net</b>	97,639,188	12,779,952	(424,536)	110,843,677
<b>Total capital assets, net</b>	<u>\$ 120,449,676</u>	<u>\$ 24,328,584</u>	<u>\$16,161,590</u>	<u>\$128,616,671</u>

Depreciation expense for the fiscal year ended September 30, 2023 was \$4,644,927. Depreciation expense for the fiscal year ended September 30, 2022 was \$3,879,467. 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. There are no plans to merge the two systems as of the date of this report.

The City did not issue debt for the Rural Electric System in the fiscal years ended September 30, 2022 and 2023.

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, 2023 and 2022, no Rural Electric System outstanding revenue bonds were defeased.

The Rural Electric System outstanding revenue bonds and certificates of obligation payable from revenues of the Rural Electric System at September 30, 2023 and September 30, 2022 are:

	<b>Revenue Bonds</b>	
	<b>2023</b>	<b>2022</b>
Gross Revenue Bonds	\$ 46,460,000	\$ 47,955,000
Unamortized Bond Premium	3,593,096	3,766,406
Net Revenue Bonds	\$ 50,053,096	\$ 51,721,406
	<b>Certificates of Obligation</b>	
	<b>2023</b>	<b>2022</b>
Gross Certificates of Obligation	\$ 3,265,000	\$ 3,525,000
Unamortized Bond Premium	82,972	91,374
Net Certificates of Obligation	\$ 3,347,972	\$ 3,616,374
Total long-term debt	\$ 53,401,068	\$ 55,337,780

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Changes to long-term debt during fiscal year 2023, including the current portion are as follows:

	Interest Rates (%)	Series Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
<u>Revenue Bonds:</u>							
Series 2016	3.000 - 5.000	2041	\$ 12,895,000	\$ -	\$ 555,000	\$ 12,340,000	\$ 585,000
Series 2018	4.000 - 5.000	2043	16,030,000	-	475,000	15,555,000	495,000
Series 2021	2.500 - 5.000	2046	19,030,000	-	465,000	18,565,000	490,000
Total Revenue Bonds			47,955,000	-	1,495,000	46,460,000	1,570,000
Unamortized Bond Premium			3,766,406	-	173,310	3,593,096	173,310
Net Revenue Bonds			51,721,406	-	1,668,310	50,053,096	1,743,310
<u>Certificates of Obligation:</u>							
Series 2013	3.200 - 4.250	2033	3,525,000	-	260,000	3,265,000	270,000
Total Certificates of Obligation			3,525,000	-	260,000	3,265,000	270,000
Unamortized Bond Premium			91,374	-	8,402	82,972	8,402
Net Revenue Bonds			3,616,374	-	268,402	3,347,972	278,402
Total long-term debt			\$ 55,337,780	\$ -	\$ 1,936,712	\$ 53,401,068	\$ 2,021,712

Changes to long-term debt during fiscal year 2022, including the current portion are as follows:

	Interest Rates (%)	Series Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
<u>Revenue Bonds:</u>							
Series 2016	3.000 - 5.000	2041	\$ 13,425,000	\$ -	\$ 530,000	\$ 12,895,000	\$ 555,000
Series 2018	4.000 - 5.000	2043	16,480,000	-	450,000	16,030,000	475,000
Series 2021	2.500 - 5.000	2046	19,675,000	-	645,000	19,030,000	465,000
Total Revenue Bonds			49,580,000	-	1,625,000	47,955,000	1,495,000
Unamortized Bond Premium			3,939,715	-	173,310	3,766,406	173,310
Net Revenue Bonds			53,519,715	-	1,798,310	51,721,406	1,668,310
<u>Certificates of Obligation:</u>							
Series 2013	3.200 - 4.250	2033	3,780,000	-	255,000	3,525,000	260,000
Total Certificates of Obligation			3,780,000	-	255,000	3,525,000	260,000
Unamortized Bond Premium			99,776	-	8,402	91,374	8,402
Net Revenue Bonds			3,879,776	-	263,402	3,616,374	268,402
Total long-term debt			\$ 57,399,492	\$ -	\$ 2,061,712	\$ 55,337,780	\$ 1,936,712

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, 2023 and 2022.

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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 2016, 2018, and 2021 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, 2023 and 2022, interest expense is recorded in the amount of \$1,796,434 and \$1,849,440 respectively, and is included as a non-operating expense.

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>
2024	\$ 1,570,000	\$ 1,783,325	\$ 3,353,325
2025	1,640,000	1,704,825	3,344,825
2026	1,725,000	1,622,825	3,347,825
2027	1,815,000	1,536,575	3,351,575
2028	1,905,000	1,445,825	3,350,825
2029 - 2033	10,905,000	5,827,125	16,732,125
2034 - 2038	11,640,000	3,615,575	15,255,575
2039 - 2043	11,980,000	1,563,950	13,543,950
2044 - 2046	3,280,000	165,375	3,445,375
Total	<u>\$ 46,460,000</u>	<u>\$ 19,265,400</u>	<u>\$ 65,725,400</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>
2024	\$ 270,000	\$ 129,659	\$ 399,659
2025	280,000	121,019	401,019
2026	290,000	111,219	401,219
2027	305,000	99,619	404,619
2028	315,000	87,419	402,419
2029 - 2033	1,805,000	233,150	2,038,150
Total	<u>\$ 3,265,000</u>	<u>\$ 782,085</u>	<u>\$ 4,047,085</u>

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<b><u>Total Debt</u></b>			
<b>Year Ending</b>			
<b>September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 1,840,000	\$ 1,912,984	\$ 3,752,984
2025	1,920,000	1,825,844	3,745,844
2026	2,015,000	1,734,044	3,749,044
2027	2,120,000	1,636,194	3,756,194
2028	2,220,000	1,533,244	3,753,244
2029 - 2033	12,710,000	6,060,275	18,770,275
2034 - 2038	11,640,000	3,615,575	15,255,575
2039 - 2043	11,980,000	1,563,950	13,543,950
2044 - 2046	3,280,000	165,375	3,445,375
Total	<b>\$ 49,725,000</b>	<b>\$ 20,047,485</b>	<b>\$ 69,772,485</b>

**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, 2023 and 2022, the Rural Electric System paid the City \$275,178 and \$187,947, 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, 2023 and 2022, the Rural Electric System's purchased power, fuel, and regulatory charges were the following:

	<b><u>FY 2023</u></b>	<b><u>FY 2022</u></b>
Purchased power cost	\$ 11,457,945	\$ 11,608,791
Fuel cost	16,972,827	19,255,955
Regulatory charges	7,196,907	\$ 6,747,898
Total	<b>\$ 35,627,679</b>	<b>\$ 37,612,644</b>

The Rural Electric System had payables to the City Electric System, as of September 30, 2023 and 2022, in the amount of \$776,735 and \$3,261,269 respectively.