

Greenville Electric Utility System (GEUS)

(A component unit of the City of Greenville, Texas)

FINANCIAL STATEMENTS
(with Independent Auditor's Report)

September 30, 2018 and 2017

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

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Independent Auditor's Report

To the Board of Trustees
of Greenville Electric Utility System
Greenville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Greenville Electric Utility System ("GEUS"), a component unit of the City of Greenville, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise GEUS' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

To the Board of Trustees
of Greenville Electric Utility System

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GEUS as of September 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Information

The comparative information presented herein as of and for the year ended September 30, 2017, was derived from financial statements audited by a predecessor auditor and, accordingly, we express no opinion or provide no assurance on it. The predecessor auditor expressed an unmodified opinion on those financial statements in their report dated March 21, 2018.

Emphasis of Matter

As discussed in Note 1 and Note 11 to the financial statements, GEUS adopted the provisions of Government Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the fiscal year ended September 30, 2018. 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, pension and other post-employment benefits information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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.

To the Board of Trustees
of Greenville Electric Utility System

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2019, on our consideration of GEUS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of GEUS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GEUS' internal control over financial reporting and compliance.

Whitley Penn LLP

Dallas, Texas
March 21, 2019

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

September 30, 2018 and 2017

The management of GEUS encourages the readers to consider the following discussion and analysis in combination with the financial statements included in the Financial Section.

The objective of this discussion and analysis is to provide the reader information relevant to assess the financial condition and the results of operations of GEUS as determined by an evaluation of reported financial statement amounts.

Please refer to the accompanying basic financial statements and their related footnotes for more detailed information concerning the financial condition of GEUS. The basic financial statements are comprised of the statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows and the related notes which are an integral part of the financial statements.

Financial Highlights

The assets and deferred outflows of resources of GEUS exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended September 30, 2018, by \$22,230,702 (net position). Of this amount, there is a negative unrestricted net position of \$10,742,403 due to the impairment of prepaid electric costs. These prepaid electric costs were incurred during FY 2010 and again in FY 2015 when TMPA's member cities issued debt on TMPA's behalf for debt refunding and the upgrade of assets, both related to electric generations. The future energy expected from TMPA as a result of these payments were recorded as an asset, prepaid electric costs, and were being amortized over the anticipated life of the TMPA assets. In September 2016, TMPA and its member cities were notified by the City of Greenville of their intention to opt out of the TMPA Power Sales Contract and discontinue receiving energy as of September 1, 2018. After September 1, 2018 there would not be any benefits associated with the prepaid electric costs and required a write down for the impairment of the assets. As of September 30, 2017, the value of the prepaid assets were reduced to \$1,549,895 in line with the remaining energy expected in 2018. The balance of the prepaid electric costs were fully amortized in fiscal year 2018 with \$0 balance as of September 30, 2018.

GEUS' total net position increased by \$4,385,655 from current year operations. This increase is mainly the result of increase in fuel adjustment rate, consumption, and reimbursement from Texas Department of Transportation for a portion of relocation cost related to transmission lines.

GEUS' revenue bond liabilities decreased by \$3,733,000 during the current fiscal year, due to scheduled principal payments.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of GEUS. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

GEUS' financial statements utilize accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about their activities. The statements of net position include all of GEUS' assets, deferred outflows and liabilities and provide information about the nature and amounts of investments in resources and the obligations to creditors. It also provides the

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)***September 30, 2018 and 2017*

basis for evaluating the capital structure of GEUS and assessing the liquidity and financial flexibility of GEUS.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses and changes in net position. These statements measure the success of GEUS' operations over the past year and can be used to determine whether GEUS has successfully recovered all of its costs through its rates and fees, profitability and credit-worthiness.

The final required financial statements are the statements of cash flows. The statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities as well as provide answers to such questions as where did cash come from, what was capital and related cash used for, and what was the change in the cash balance during the reporting period.

	September 30,		
	2018	2017	2016
Assets			
Current assets	\$30,608,778	\$ 24,695,668	\$ 24,502,840
Restricted assets	7,105,292	9,235,065	8,907,270
Prepaid electric costs	-	1,549,895	37,192,836
Electric plant, net	54,865,844	54,517,065	55,777,097
Cable and Internet equipment, net	6,678,035	7,116,782	7,825,422
Total assets	99,257,949	97,114,475	134,205,465
Deferred Outflow of Resources	878,877	2,829,094	3,659,211
Liabilities			
Current liabilities	4,544,922	3,917,971	3,393,698
Current liabilities payable from restricted assets	5,227,982	3,391,926	3,143,445
Long-term liabilities, less current maturities	65,957,237	73,774,027	74,457,129
Total liabilities	75,730,141	81,083,924	80,994,272
Deferred Inflows of Resources	2,175,983	210,144	-
Net Position			
Net investment in capital assets	28,436,832	26,814,332	28,004,217
Restricted for revenue bond debt service	4,536,273	5,152,752	5,173,144
Unrestricted	(10,742,403)	(13,317,583)	23,693,043
Total net position	\$22,230,702	\$ 18,649,501	\$ 56,870,404

Net Position

Net position increased by \$3,581,201, or 19% of beginning net position, for the year ended September 30, 2018. This increase is primarily due to increase in electric sales offset by \$804,454 prior period adjustment related to the implementation of GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

September 30, 2018 and 2017

Net position decreased by \$38,220,903, or 67.2%, for the year ended September 30, 2017. This decrease is primarily due to the impairment of prepaid electric costs.

Current Assets

The \$5,913,110 increase in current assets as of September 30, 2018, is mainly attributable to an increase in cash and accounts receivable. Texas Municipal Power Agency (TMPA) issued a refund to the member cities for overpayment of fiscal year 2018 TMPA fixed costs which was recorded in receivable.

The \$192,828 increase in current assets as of September 30, 2017, is mainly attributable to an increase in accounts receivable and inventories.

Property, Plant and Equipment

Property, plant and equipment net of accumulated depreciation, which includes production, transmission, distribution, general, cable and Internet equipment and other items owned by GEUS, decreased approximately \$90,000 from \$61.6 million as of September 30, 2017, to \$61.5 million as of September 30, 2018. The decrease is related mostly to current year depreciation of assets. Asset purchases totaled \$3.6 million and depreciation expense of \$3.6 million was recorded.

Property, plant and equipment net of accumulated depreciation, which includes production, transmission, distribution, general, cable and Internet equipment and other items owned by GEUS, decreased approximately \$2.0 million from \$63.6 million as of September 30, 2016, to \$61.6 million as of September 30, 2017. The decrease is related mostly to current year depreciation of assets. Asset purchases totaled \$1.9 million and depreciation expense of \$4.0 million was recorded.

Current Liabilities

Current liabilities increased by \$626,951 from September 30, 2017 to September 30, 2018, primarily due to an increase in accounts payable, due to primary government, and accrued compensated absences payable.

Current liabilities increased by \$524,273 from September 30, 2016 to September 30, 2017, primarily due to an increase in accounts payable, salaries payable and accrued compensated absences payable.

Long-term Liabilities

GEUS' long-term liabilities decreased \$7.8 million for the year ended September 30, 2018, primarily due to a decrease in the net pension liability and scheduled debt payments including paying off Electric System revenue refunding bonds series 2015. GEUS' underlying debt is rated "A2" and "A+" by Moody's and Standard and Poor's, respectively.

GEUS' long-term liabilities decreased \$683,102 for the year ended September 30, 2017, primarily due to a decrease in the net pension liability and scheduled debt payments. GEUS' underlying debt is rated "A2" and "A+" by Moody's and Standard and Poor's, respectively.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
September 30, 2018 and 2017

	For the Years Ending		
	September 30,		
	2018	2017	2016
Revenues			
Operating revenues	\$ 66,459,229	\$ 62,371,543	\$ 59,044,109
Nonoperating revenues - other	139,611	29,683	108,132
Total revenues	<u>66,598,840</u>	<u>62,401,226</u>	<u>59,152,241</u>
Expenses			
Other operating expense	55,376,707	59,329,705	54,296,306
Depreciation expense	3,634,614	3,977,782	3,863,263
Nonoperating expense	3,201,864	3,221,596	3,307,650
Total expenses	<u>62,213,185</u>	<u>66,529,083</u>	<u>61,467,219</u>
Impairment of Prepaid Electric Costs	<u>-</u>	<u>(34,093,046)</u>	<u>-</u>
Change in Net Position	4,385,655	(38,220,903)	(2,314,978)
Net Position, Beginning of Year	18,649,501	56,870,404	59,185,382
Prior period adjustment	<u>(804,454)</u>	<u>-</u>	<u>-</u>
Net Position, End of Year	<u>\$ 22,230,702</u>	<u>\$ 18,649,501</u>	<u>\$ 56,870,404</u>

Revenues and Expenses

GEUS' operating revenues increased approximately \$4.1 million for the year ended September 30, 2018, compared to September 30, 2017. The increase is due to a \$1.5 million increase in residential metered sales, \$1.3 million increase in fuel adjustment, and \$1.0 million increase in customer aid to construction. Cable and Internet (C/I) revenues were consistent with the prior year.

GEUS' operating revenues increased approximately \$3.3 million for the year ended September 30, 2017, compared to September 30, 2016. The increase is due to a \$2.5 million increase in off-system sales and is driven by the addition of available energy resources added at the end of FY 2016 and during FY 2017 coupled with stronger demand in the Nodal market. Fuel and Regulatory rates were increased and produced an additional \$850 thousand in revenues. Cable and Internet (C/I) revenues were consistent with the prior year.

Operating expenses decreased by approximately \$4.0 million for the year ended September 30, 2018, compared to September 30, 2017. The decrease is primarily due to decreased fuel and purchased energy costs related to TMPA fixed cost.

Operating expenses increased by approximately \$5.0 million for the year ended September 30, 2017, compared to September 30, 2016. The increase is primarily due to increased fuel and purchased energy costs.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
September 30, 2018 and 2017

Requests for Information

This financial report is designed to provide a general overview of the GEUS' finances for all those with an interest in the utility's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to GEUS, Finance Department, 6000 Joe Ramsey Boulevard, Greenville, Texas 75402.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

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STATEMENTS OF NET POSITION

September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Equity in pooled cash	\$ 9,132,694	\$ 6,471,062
Investments	6,850,677	6,679,417
Accounts receivable, net of allowance for uncollectible amounts of \$809,841 and \$741,157, respectively	11,263,086	8,172,823
Prepaid expense	139,381	160,977
Inventories	3,222,940	3,211,389
Total current assets	<u>30,608,778</u>	<u>24,695,668</u>
Noncurrent Assets		
Restricted Assets		
Cash and cash equivalents	7,105,292	8,346,887
Investment	-	888,178
Total restricted assets	<u>7,105,292</u>	<u>9,235,065</u>
Prepaid Electric Costs	<u>-</u>	<u>1,549,895</u>
Property, Plant and Equipment:		
Production	50,338,935	49,976,065
Transmission	11,165,688	10,634,474
Distribution	26,880,601	26,192,651
General	10,185,682	10,032,125
Construction in progress	679,190	72,260
Cable and internet	17,491,945	18,113,177
Total property, plant and equipment	<u>116,742,041</u>	<u>115,020,752</u>
Less accumulated depreciation	<u>55,198,162</u>	<u>53,386,905</u>
Property, plant and equipment, net	<u>61,543,879</u>	<u>61,633,847</u>
Total noncurrent assets	<u>68,649,171</u>	<u>72,418,807</u>
Total assets	<u>99,257,949</u>	<u>97,114,475</u>
Deferred Outflow of Resources		
Deferred contributions - pensions	621,043	571,901
Deferred changes of assumptions - pensions	196,455	422,265
Deferred investment losses - pensions	-	1,803,185
Deferred experience losses - pensions	-	31,743
Deferred contributions - OPEB	18,367	-
Deferred changes in assumptions - OPEB	43,012	-
Total deferred outflows of resources	<u>878,877</u>	<u>2,829,094</u>

See accompanying notes to financial statements.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

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STATEMENTS OF NET POSITION

September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 2,486,134	\$ 2,045,920
Accrued liabilities	281,435	421,771
Due to component units of the primary government	180,021	150,261
Due to primary government	900,105	751,304
Accrued compensated absences	697,227	548,715
Total current liabilities	<u>4,544,922</u>	<u>3,917,971</u>
Current Liabilities Payable from Restricted Assets		
Revenue bonds - current	2,260,000	490,000
Customer deposits	2,569,019	2,484,691
Accrued interest	398,963	417,235
Total current liabilities payable from restricted assets	<u>5,227,982</u>	<u>3,391,926</u>
Long-term Liabilities, Less Current Maturities		
Revenue bonds payable	63,330,000	68,833,000
Bond premium (discount), net	510,203	552,255
Accrued compensated absences	297,819	469,631
Net pension liability	907,995	3,919,141
Total OPEB liability	911,220	-
Total long-term liabilities, less current maturities	<u>65,957,237</u>	<u>73,774,027</u>
Total liabilities	<u>75,730,141</u>	<u>81,083,924</u>
Deferred Inflows of Resources		
Deferred experience gains - pensions	1,349,491	210,144
Deferred experience gains - OPEB	3,792	-
Deferred revenue - fuel adjustments	822,700	-
Total deferred inflows of resources	<u>2,175,983</u>	<u>210,144</u>
Net Position		
Net investment in capital assets	28,436,832	\$ 26,814,332
Restricted for debt service	4,536,273	5,152,752
Unrestricted	<u>(10,742,403)</u>	<u>(13,317,583)</u>
Total net position	<u>\$ 22,230,702</u>	<u>\$ 18,649,501</u>

See accompanying notes to financial statements.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Electric	\$ 60,348,437	\$ 56,332,151
Cable and internet	6,110,792	6,039,392
Total operating revenues	<u>66,459,229</u>	<u>62,371,543</u>
Operating Expenses		
Electric	45,144,618	48,954,429
Cable and internet operations	5,147,590	4,983,896
Administrative	493,963	1,174,141
Insurance	238,625	229,442
City services	572,225	695,621
Pilot	360,593	356,100
General fund	2,849,244	2,446,730
Board of development	569,849	489,346
Total operating expenses	<u>55,376,707</u>	<u>59,329,705</u>
Operating Income Before Depreciation	11,082,522	3,041,838
Less Depreciation	<u>3,634,614</u>	<u>3,977,782</u>
Operating Income (Loss)	<u>7,447,908</u>	<u>(935,944)</u>
Nonoperating Revenue (Expenses)		
Investment earnings	139,611	29,683
Interest expense	(3,271,906)	(3,263,258)
Amortization	42,051	41,662
Other income (expense)	27,991	-
Total nonoperating revenue (expenses), net	<u>(3,062,253)</u>	<u>(3,191,913)</u>
Income Before Impairment	4,385,655	(4,127,857)
Impairment of Prepaid Electric Costs	<u>-</u>	<u>(34,093,046)</u>
Change in Net Position	4,385,655	(38,220,903)
Net Position, Beginning of Year	18,649,501	56,870,404
Prior Period Adjustment (See Note 11)	<u>(804,454)</u>	<u>-</u>
Net Position, End of Year	<u>\$ 22,230,702</u>	<u>\$ 18,649,501</u>

See accompanying notes to financial statements.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from customers and users	\$ 64,275,994	\$ 61,881,600
Cash paid to employees	(10,817,633)	(11,086,479)
Cash paid to suppliers	<u>(43,750,205)</u>	<u>(46,024,755)</u>
Net cash provided by (used) in operating activities	<u>9,708,156</u>	<u>4,770,366</u>
Investing Activities		
Purchases of investments, net	2,095,290	554,094
Interest on investments	<u>139,611</u>	<u>29,683</u>
Net cash provided by (used in) investing activities	<u>2,234,901</u>	<u>583,777</u>
Capital and Related Financing Activities		
Purchase of capital assets	(3,569,884)	(2,027,467)
Proceeds from sale of capital assets	27,991	18,357
Principal payments	(3,733,000)	(475,000)
Interest and fiscal charges	<u>(3,248,127)</u>	<u>(3,295,500)</u>
Net cash provided by (used in) in capital and related financing activities	<u>(10,523,020)</u>	<u>(5,779,610)</u>
Increase (Decrease) in Cash and Cash Equivalents	1,420,037	(425,467)
Cash and Cash Equivalents, Beginning of Year	<u>14,817,949</u>	<u>15,243,416</u>
Cash and Cash Equivalents, End of Year	<u>\$ 16,237,986</u>	<u>\$ 14,817,949</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 7,447,908	\$ (935,944)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,634,614	3,977,782
Amortization of prepaid electric costs	-	1,549,897
Provision for bad debts	68,685	124,542
Change in:		
Receivables	(3,090,263)	(1,281,016)
Prepaid assets	21,596	48,520
Inventories	(11,551)	(392,230)
Due to component units of the primary government	29,760	(7,878)
Due to primary government	148,801	(39,391)
Compensated absences	(23,300)	92,526
Deposits payable	84,328	265,723
Accounts payable and accrued liabilities	299,878	529,921
Deferred revenue - fuel adjustments	822,700	-
Net pension liability, net of changes in deferred resources	139,797	837,914
Total OPEB liability, net of changes in deferred resources	<u>135,203</u>	<u>-</u>
Net Cash Provided by (Used In) Operating Activities	<u>\$ 9,708,156</u>	<u>\$ 4,770,366</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Equity in pooled cash	\$ 9,132,694	\$ 6,471,062
Restricted cash	<u>7,105,292</u>	<u>8,346,887</u>
Total cash and cash equivalents	<u>\$ 16,237,986</u>	<u>\$ 14,817,949</u>

See accompanying notes to financial statements.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The accounting and reporting policies of GEUS, as reflected in the accompanying financial statements, conform to generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Boards. The following represents the more significant accounting and reporting policies and practices used by the utility.

Reporting Entity

GEUS provides electric, cable and Internet services to customers in an approximately 96-square-mile area, which includes the City of Greenville (City). Until 1989, the electric system was owned and operated by the City. Pursuant to Article XI-A of the *Charter of the City* (adopted at an election held on May 8, 1988) and Article 1115a, *Vernon's Texas Civil Statutes*, the City transferred management control and operation of the electric system to the newly created five-member Board of Trustees (Board) of GEUS. Among the powers delegated to the Board is the power to establish rates and charges for services supplied by the electric system, the power of condemnation for electrical use, as well as the power to issue revenue obligations. The Board has the primary responsibility for the payment of all obligations which are payable from the revenues of the electric system. In fiscal year 1989, obligations of the City relating to its electric system were transferred to GEUS. Although the City Council appoints all GEUS Board members, the Board members may only be removed by a vote of the citizens of the City. The City Charter was amended in May 2010, to include the Mayor as a nonvoting, ex-officio sixth member of the Board of Trustees. GEUS' operating and capital expenditures, including debt service, are financed entirely through electric rates. Financial transactions between GEUS and the City, reported in GEUS' financial statements, reflect contractual agreements between the parties for the provision of special services by the City to GEUS and by GEUS to the City. GEUS is included as a discretely presented component unit in the City's basic financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus, Basis of Accounting and Basis of Presentation

GEUS maintains an enterprise fund to account for its operations. An enterprise fund is a proprietary fund, which is accounted using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of management is to finance the costs of providing services to the public primarily through user charges.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies (continued)

Accounting and Financial Reporting

GASB Statement No. 34 (GASB 34), *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, establishes financial reporting standards for state and local governments, including public utilities. GASB 34 establishes the basic financial statements and required supplementary information for general and special purpose governments. The management’s discussion and analysis is included as GEUS’ required supplementary information and precedes the basic financial statements.

Unbilled Revenues and Fuel Recovery

Customers are billed monthly on a cycle basis, with revenues being recorded when billed. At the end of the accounting period, an accrual is made for unbilled revenues, which consists of electric utility services provided, but not billed. Unbilled revenues are included in accounts receivable.

GEUS is allowed to recover fuel and purchased energy costs through fuel charges. GEUS defers or accrues any over recognized or under recovered fuel and purchased power costs in excess of the fuel charges until such costs are reflected in billings to customers. This fuel recovery allows for the pass-through of fuel costs to the customers and has no impact on net position. This deferral is included in accounts receivable.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost or acquisition value for assets contributed by developers. Expenditures for improvements and those that extend the lives of assets are capitalized. Maintenance and repairs are charged to expense. GEUS utilizes the straight-line depreciation method for all plant and equipment. The following is a summary of the useful lives assigned to the major classes of depreciable fixed assets:

Buildings	30 - 50 years
Improvements other than buildings	5 - 50 years
Machinery and equipment	5 - 35 years
Motor vehicles	10 years

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies (continued)

Services Provided by the City of Greenville

GEUS contracts with the City of Greenville for certain administrative and operating services. GEUS' employees are on the payroll of the City and participate in City pension and employee benefit plans. Contributions were made by GEUS and its employees to the Texas Municipal Retirement System (TMRS), the deferred compensation plan, the medical self-insurance plan and the workers' compensation self-insurance plan of the City.

Specific expenses of GEUS are processed and paid by the City and charged to GEUS. In addition, GEUS made the following payments to the City:

	<u>2018</u>	<u>2017</u>
5% General fund transfer to City	\$ 2,849,244	\$ 2,446,730
1% Transfer to the City of BOD	569,849	489,346
Payment in lieu of property taxes	360,593	356,100
General and administrative	572,225	695,621
	<u>\$ 4,351,911</u>	<u>\$ 3,987,797</u>

Cash and Cash Equivalents

GEUS considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. The City maintains a cash and investment pool in which GEUS participates. GEUS's portion of this pool is displayed on the statement of net position as "Equity in pooled cash".

In accordance with GASB Statement No. 31, the GEUS' general policy is to report short-term treasury securities, U.S. government backed securities which have a remaining term of one year or less at time of purchase, and money market mutual funds at amortized costs.

Investments

Investments consist of local government investment pools, United States (U.S.) treasury obligations, and U.S. agency securities with original maturities greater than three months from the date of acquisition. GEUS reports all investments at fair value, except for investment pools. GEUS' investment pools are valued and reported at amortized cost, which approximates fair value.

GEUS categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies (continued)

Inventories

Inventories, which are expensed as they are consumed, are stated at weighted-average cost.

Bond Discounts (Premium)

Bond discounts (premium) are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts (premium) are presented as a reduction of (addition to) the face amount of bonds payable.

Prepaid Electric Costs

Prepaid electric costs represent the unamortized balance of GEUS' prepayment of its contractual obligation to the Texas Municipal Power Agency (TMPA) for power received from the agency. See Agreement with TMPA in *Note 5*. The prepayment was scheduled for amortization over the term of the bonds using the straight-line method.

Under GEUS' agreement with TMPA, the amount that GEUS pays as electric costs covers operating costs and the retirement of debt. Additionally, from fiscal year 2012 through fiscal year 2015, a portion of the following year's demand costs were prepaid using cash accumulated for this purpose. That prepayment was also amortized along with the prior prepaid costs.

In September 2016, GEUS provided notice to TMPA that it would opt out of the Power Sales Contract, as amended. As a result of this notice, GEUS will discontinue purchasing power from TMPA effective September 1, 2018. Due to the significant decline in the service utility of the prepaid electric cost asset, such assets were deemed impaired during 2017 and GEUS recognized a \$34,093,046 impairment loss in the fiscal year 2017 statement of revenues, expenses and changes in net position which created an overall negative Unrestricted Net Position.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. GEUS reports deferred amounts related to its net pension liability and total OPEB liability in the statement of net position.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue/increase of net pension liability) until that time. GEUS reports deferred amounts related to its net pension liability and total OPEB liability in the statement of net position.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies (continued)

Pensions

For purposes of measuring the net pension liability, deferred outflow/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71.

Other Post-employment Benefits (OPEB)

The City provides postemployment medical care benefits to its retirees. Retirees who elect COBRA cannot later elect retiree coverage. Employees separating employment with the City who have had at least five years of service with the City and who are eligible for Texas Municipal Retirement System retirement benefits at the date of separation may purchase retiree health insurance through the City. An employee must participate in Health Compare Exchange Market Place to receive OPEB subsidies for health care. All medical care benefits are provided through a selected health care provider in Exchange Market Place. Retirees may remain covered until age 65 or eligibility for Medicare. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 75.

Implementation of New Accounting Standards

In the current fiscal year, GEUS implemented the following new standards. The applicable provisions of these new standards are summarized here. Implementation is reflected in the financial statements and the notes to the financial statements.

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.
- GASB Statement No. 85, *Omnibus 2017*. This Statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)*NOTES TO FINANCIAL STATEMENTS (continued)**September 30, 2018***Note 1: Nature of Operations and Summary of Significant Accounting Policies (continued)*****Net Position Flow Assumption***

Sometimes GEUS will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is GEUS' policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Note 2: Deposits and Investments

Cash and investments as of September 30, 2018 and 2017, are classified in the accompanying financial statements as follows:

	<u>2018</u>	<u>2017</u>
Equity in pooled cash	\$ 9,132,694	\$ 6,471,062
Restricted cash	7,105,292	8,346,887
Investments	6,850,677	6,679,417
Restricted investments	-	888,178
	<u>\$ 23,088,663</u>	<u>\$ 22,385,544</u>

Deposits and investments as of September 30, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 3,159	\$ 3,159
Demand deposits	4,427,891	9,250,350
Investments***	18,657,613	13,132,035
Total deposits and investments	<u>\$ 23,088,663</u>	<u>\$ 22,385,544</u>

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 2: Deposits and Investments (continued)

The table below identifies the investment types that are authorized for GEUS by the Texas *Public Funds Investment Act* (Act) (Government Code Chapter 2256). The table also identifies certain provisions of GEUS' investment policy that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Investment Policy		
	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligation	5 years	None	None
U.S. Agencies Securities	5 years	None	None
State of Texas Treasury Obligations	5 years	None	None
State of Texas Securities	5 years	None	None
Certificates of deposits	5 years	None	None
Money market	90 days	None	None
Repurchase agreements	90 days	30%	None
Mutual funds	2 years	None	None
Investment pools	90 days	None	None
Banker's acceptance	270 days	30%	None
Commercial paper	270 days	30%	None
Collateralized mortgage obligations	5 years	None	None

GEUS' investment policy limits the maximum maturity of investments and the weighted-average of the portfolio based on four major fund types which are general operating funds, debt service funds, reserve funds and capital improvement funds. The details relating to these limits may be obtained from the City of Greenville's Finance Department.

The Act also requires GEUS to have independent auditors perform test procedures related to investment practices as provided by the Act. GEUS is in substantial compliance with the requirements of the Act and with local policies.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that GEUS manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. GEUS monitors the interest rate risk inherent in its portfolio by measuring the weighted- average maturity of its portfolio. GEUS has no specific limitations with respect to this metric.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 2: Deposits and Investments (continued)

As of September 30, 2018, GEUS had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 480,621	28
Logic	483,953	31
Texas Daily	3,104,320	35
Texas Term	7,738,042	35
U.S. Treasury Obligations	2,737,501	307
U.S. Agencies Securities	4,113,176	398
Total	<u>\$ 18,657,613</u>	
Portfolio weighted-average maturity		155

As of September 30, 2017, GEUS had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Days to Maturity</u>
TexPool	\$ 438,099	1
Logic	440,034	1
Texas Daily	182,395	1
Texas Term	4,503,909	1
U.S. Treasury Obligations	2,556,857	1092
U.S. Agencies Securities	4,493,396	1026
Commercial Paper	517,345	269
Total	<u>\$ 13,132,035</u>	
Portfolio weighted-average maturity		340

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the *Public Funds Investment Act*, GEUS' investment policy, or debt agreements and the actual rating as of year-end for each investment type.

<u>September 30, 2018</u>			
<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
TexPool	\$ 480,621	N/A	AAA
Logic	483,953	N/A	AAA
Texas Daily	3,104,320	N/A	AAAm
Texas Term	7,738,042	N/A	AAAm
U.S. Treasury Obligations	2,737,501	N/A	AA+
U.S. Agencies Securities	4,113,176	N/A	AA+
Total	<u>\$ 18,657,613</u>		

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 2: Deposits and Investments (continued)

Disclosures Relating to Credit Risk (continued)

September 30, 2017			
Investment Type	Amount	Minimum Legal Rating	Rating as of Year End
TexPool	\$ 438,099	N/A	AAAm
Logic	440,034	N/A	AAA
Texas Daily	182,395	N/A	AAAm
Texas Term	4,503,909	N/A	AAAf
U.S. Treasury Obligations	2,556,857	N/A	AA+
U.S. Agencies Securities	4,493,396	N/A	AA+
Commercial Paper	517,345	N/A	AA+
Total	\$ 13,132,035		

Investments' fair value measurements are as follows as of September 30, 2018:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Treasury Obligations	\$ 2,737,501	\$ 2,737,501	\$ -	\$ -
Government securities:				
FHLB	949,182	-	949,182	-
FNMA	2,474,045	-	2,474,045	-
FHLMC	689,949	-	689,949	-
Total	\$ 6,850,677	\$ 2,737,501	\$ 4,113,176	\$ -

Concentration of Credit Risk

The investment policy of GEUS contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2018, other than external investment pools, investments that represent 5% or more of GEUS' total are as follows.

Investment	Investment Type	Amount
Treasury Notes	U.S. Treasury Obligations	\$ 2,737,501
FHLB	U.S. Agency Securities	949,182
FNMA	U.S. Agency Securities	2,474,045
FHLMC	U.S. Agency Securities	689,949
Total		\$ 6,850,677

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 2: Deposits and Investments (continued)

The Texas *Public Funds Investment Act* and GEUS' investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of September 30, 2018, GEUS' deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

GEUS is a voluntary participant in TexPool. The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool uses amortized cost rather than the market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the net asset value of TexPool shares.

GEUS invested in the Texas Local Government Investment Cooperative (LOGIC) Liquid Asset Portfolio. LOGIC is a public funds investment pool managed by Southwest Securities Group, Inc. LOGIC investments are not categorized in accordance with GASB Statement No. 3 disclosure requirements since the City has not issued securities, but rather it owns an individual beneficial interest in the assets of the related investment pools. LOGIC uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in LOGIC is the same as the net asset value of LOGIC shares.

GEUS is invested in Texas Daily and TexasTERM, two portfolios within the TexasTERM Local Government Investment Pool (Pool) which was created by Texas local governments to provide investment programs tailored to the needs of Texas cities, counties, school districts and other public investors. The Pool is directed by an Advisory Board of experienced local government finance directors and treasurers. The Advisory Board contracts for services with professional service providers who are industry leaders in their field. TexasTERM portfolios seek to provide investors with safety, flexibility and competitive yields.

TexasDAILY is a money market portfolio with daily liquidity. TexasTERM is a fixed-rate, fixed-term portfolio, that enables investors to lock in a fixed rate for a term of 60 days to 365 days. Both portfolios pool the funds of investors to invest in money-market instruments of larger denominations than possible for a single local government entity, which may result in higher yields. The fair value of both pools is the same as the net asset value of their shares.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, the Local Government Investment Pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 3: Capital Assets

A summary of GEUS' capital assets at September 30, 2018, are as follows:

	Balance September 30, 2017	Increases	Decreases	Transfers	Balance September 30, 2018
Capital assets not being depreciated					
Production land	\$ 161,191	\$ -	\$ -	\$ -	\$ 161,191
Transmission land	53,501	-	-	-	53,501
Distribution land	218,418	-	-	-	218,418
General land	110,503	-	-	-	110,503
Construction in progress	72,260	679,190	-	(72,260)	679,190
Total capital assets not being depreciated	<u>615,873</u>	<u>679,190</u>	<u>-</u>	<u>(72,260)</u>	<u>1,222,803</u>
Capital assets being depreciated					
Production	49,814,874	383,864	(39,189)	18,195	50,177,744
Transmission	10,580,973	608,432	(91,258)	14,040	11,112,187
Distribution	25,974,233	1,149,880	(491,596)	29,666	26,662,183
General	9,921,622	454,870	(311,672)	10,359	10,075,179
Cable and internet	18,113,177	293,648	(914,880)	-	17,491,945
Total capital assets being depreciated	<u>114,404,879</u>	<u>2,890,694</u>	<u>(1,848,595)</u>	<u>72,260</u>	<u>115,519,238</u>
Accumulated depreciation					
Production	18,479,760	1,291,782	(39,189)	-	19,732,353
Transmission	5,794,707	270,184	(91,258)	-	5,973,633
Distribution	12,660,879	954,875	(491,594)	-	13,124,160
General	5,455,164	385,777	(286,835)	-	5,554,106
Cable and internet	10,996,395	731,995	(914,480)	-	10,813,910
Total accumulated depreciation	<u>53,386,905</u>	<u>3,634,613</u>	<u>(1,823,356)</u>	<u>-</u>	<u>55,198,162</u>
Total activities capital assets, net	<u>\$ 61,633,847</u>	<u>\$ (64,729)</u>	<u>\$ (25,239)</u>	<u>\$ -</u>	<u>\$ 61,543,879</u>

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 3: Capital Assets (continued)

A summary of GEUS' capital assets at September 30, 2017, are as follows:

	Balance September 30, 2016	Increases	Decreases	Transfers	Balance September 30, 2017
Capital assets not being depreciated					
Production land	\$ 161,191	\$ -	\$ -	\$ -	\$ 161,191
Transmission land	53,501	-	-	-	53,501
Distribution land	218,418	-	-	-	218,418
General land	110,503	-	-	-	110,503
Construction in progress	-	72,260	-	-	72,260
Total capital assets not being depreciated	543,613	72,260	-	-	615,873
Capital assets being depreciated					
Production	49,889,378	21,047	(95,551)	-	49,814,874
Transmission	10,517,440	154,791	(91,258)	-	10,580,973
Distribution	25,429,287	1,218,266	(673,320)	-	25,974,233
General	9,869,166	171,399	(118,943)	-	9,921,622
Cable and internet	18,296,748	371,347	(554,918)	-	18,113,177
Total capital assets being depreciated	114,002,019	1,936,850	(1,533,990)	-	114,404,879
Accumulated depreciation					
Production	17,273,904	1,301,407	(95,551)	-	18,479,760
Transmission	5,618,769	267,196	(91,258)	-	5,794,707
Distribution	12,417,388	916,811	(673,320)	-	12,660,879
General	5,161,726	412,381	(118,943)	-	5,455,164
Cable and internet	10,471,326	1,079,987	(554,918)	-	10,996,395
Total accumulated depreciation	50,943,113	3,977,782	(1,533,990)	-	53,386,905
Total activities capital assets, net	\$ 63,602,519	\$ (1,968,672)	\$ -	\$ -	\$ 61,633,847

Note 4: Long-term Liabilities

A summary of changes in general long-term liabilities for GEUS for the year ended September 30, 2018:

	Balance September 30, 2017	Additions	Deletions	Balance September 30, 2018	Within One Year
Bonds payable					
Revenue bonds	\$ 13,670,000	\$ -	\$ (490,000)	\$ 13,180,000	\$ 515,000
Revenue refunding bonds	55,653,000	-	(3,243,000)	52,410,000	1,745,000
Less:					
Issuance premiums	666,106	-	(52,806)	613,300	-
Issuance discounts	(113,851)	-	10,754	(103,097)	-
Total bonds payable	69,875,255	-	(3,775,052)	66,100,203	2,260,000
Net pension liability	3,919,141	-	(3,011,146)	907,995	-
Total OPEB liability	-	911,220	-	911,220	-
Compensated absences	1,018,346	510,021	(533,321)	995,046	697,227
Total	\$ 74,812,742	\$ 1,421,241	\$ (7,319,519)	\$ 68,914,464	\$ 2,957,227

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 4: Long-term Liabilities (continued)

A summary of changes in general long-term liabilities for GEUS for the year ended September 30, 2017:

	Balance September 30, 2016	Additions	Deletions	Balance September 30, 2017	Within One Year
Bonds payable					
Revenue bonds	\$ 69,798,000	\$ -	\$ (475,000)	\$ 69,323,000	\$ 490,000
Less:					
Issuance premiums	718,912	-	(52,806)	666,106	-
Issuance discounts	(124,996)	-	11,145	(113,851)	-
Total bonds payable	<u>70,391,916</u>	<u>-</u>	<u>(516,661)</u>	<u>69,875,255</u>	<u>490,000</u>
Net pension liability	4,121,488	-	(202,347)	3,919,141	-
Compensated absences	<u>925,820</u>	<u>565,271</u>	<u>(472,745)</u>	<u>1,018,346</u>	<u>548,715</u>
Total	<u>\$ 75,439,224</u>	<u>\$ 565,271</u>	<u>\$ (1,191,753)</u>	<u>\$ 74,812,742</u>	<u>\$ 1,038,715</u>

A summary of GEUS' long-term debt is as follows:

	2018	2017
Electric system revenue bonds, Series 2008, \$16,615,000 originally issued with rates ranging from 4.00% to 5.45% matures in September 2035	\$ 13,180,000	\$ 13,670,000
Electric revenue refunding bonds, Series 2010, \$52,410,000 originally issued with rates ranging from 4.70% to 5.00%, matures in September 2040.	52,410,000	52,410,000
Electric system revenue refunding bonds, Series 2015, \$2,447,000 originally issued with rerate of 1.71%. Paid off in fiscal year 2018.	-	2,447,000
Electric system revenue refunding bonds, Series 2015 Taxable, \$796,000 originally issued with rate of 2.68%. Paid off in fiscal year 2018.	-	796,000
	<u>65,590,000</u>	<u>69,323,000</u>
Current maturities	<u>(2,260,000)</u>	<u>(490,000)</u>
Total long-term debt	<u>\$ 63,330,000</u>	<u>\$ 68,833,000</u>

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 4: Long-term Liabilities (continued)

The City ordinances authorizing the electric revenue refunding bonds and subsequent ordinances assigning the bonds to GEUS stipulate that in addition to principal and interest requirements, GEUS will deposit the lesser of 10% of the outstanding principal or the average annual requirements for the payment of principal and interest or a surety bond with coverage sufficient to meet debt requirements. GEUS established a debt service reserve fund with a portion of the proceeds from the 2008 revenue bonds, 2010 revenue refunding bonds and 2015 revenue bonds in order to meet the above requirements. The revenue bonds are payable as to both principal and interest solely from, and are secured by a first lien on and pledge of, the revenues of GEUS, after deduction of reasonable operations and maintenance expenses.

The debt service requirements on the aforementioned bonded debt as of September 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>
2019	\$ 2,260,000	\$ 3,190,334	\$ 5,450,334
2020	2,370,000	3,078,187	5,448,187
2021	2,495,000	2,959,284	5,454,284
2022	2,615,000	2,833,315	5,448,315
2023	2,745,000	2,700,815	5,445,815
2024-2028	15,970,000	11,261,428	27,231,428
2029-2033	20,385,000	6,852,529	27,237,529
2034-2038	13,715,000	1,965,956	15,680,956
2039-2040	3,035,000	153,625	3,188,625
	<u>\$ 65,590,000</u>	<u>\$ 34,995,473</u>	<u>\$ 100,585,473</u>

Note 5: Commitments and Contingencies

Agreement with TMPA

In 1975, the City, along with the cities of Bryan, Denton and Garland, Texas (Cities), entered into a Power Sales Contract with the TMPA. GEUS provides electric services for the City under this contract. TMPA was created through concurrent ordinances of the Cities and is governed by a Board of Directors consisting of eight members, two appointed by the governing body of each city. Under the terms of the agreement, TMPA agreed to construct or acquire electric generating plants to supply energy and power to the Cities. The Power Sales Contract expired by its terms on September 1, 2018.

The Cities are obligated to cover operating cost and retirement of debt. In the event that revenues are insufficient to cover all costs and retire the outstanding debt, each of the Cities has guaranteed a portion of the unpaid debt, based generally upon its pro rata share of interest in TMPA assets.

Under the Power Sales Contract, as amended, each City had the right to terminate the Power Sales Contract beyond September 1, 2018, if notice was sent to TMPA by September 30, 2016. GEUS provided such notice to TMPA in September 2016 and, as a result, GEUS will discontinue purchasing power from TMPA effective September 1, 2018. Due to the significant decline in the service utility of the prepaid electric cost asset, such assets were deemed impaired during 2017 and GEUS recognized a \$34,093,046 impairment loss in the FY 2017 statement of revenues, expenses and changes in net position. See *Note 1*.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 5: Commitments and Contingencies (continued)

Agreement with TMPA (continued)

For the years ended September 30, 2018 and 2017, payments to TMPA totaled \$12,585,648 and \$19,522,941, respectively. As of September 30, 2018 and 2017, \$1,808 and \$427,553 of accounts payable, respectively, was due to TMPA.

As of September 30, 2018 and 2017, total TMPA debt outstanding was approximately \$218,637,000 and \$301,629,000 respectively, and GEUS' guaranteed percentage is approximately 10%. In the opinion of management, the possibility of a material payment under this guarantee is remote, in that TMPA is generating operating income and assets exceed liabilities.

TMPA operates, on a seasonal basis, a 462-megawatt, PRB coal-fueled generating plant. Should TMPA be dissolved, the TMPA Board of Directors would be responsible for the disposal of assets.

Selected financial statement information of TMPA at September 30, is as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 175,471	\$ 277,155
Operating expenses	68,769	121,245
Operating income	106,702	155,910
Interest charges	10,634	11,188
Current assets	56,479	53,839
Noncurrent assets	212,944	352,853
Total assets	269,423	406,692
Deferred outflows		403
Current liabilities	37,991	140,414
Noncurrent liabilities	217,217	221,794
Total liabilities	255,208	362,208
Total net position	14,215	44,887

Board of Development Payment

Under GEUS' charter, 6% of adjusted revenues are to be transferred annually to the City of which 1% of adjusted revenues is for the benefit of the Board of Development. GEUS reflected expenses totaling \$569,849 and \$489,346 related to the Board of Development portion during the years ended September 30, 2018 and 2017, respectively.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 6: Environmental Regulation

Electric utilities are subject to numerous environmental statutes, regulations, and other rules administered at the federal, state and local level. These environmental rules are subject to change and tend to increase and become more stringent over time. These changes may arise from continuing legislative, regulatory and judicial action regarding the promulgation and implementation of such standards and procedures. Consequently, there is no assurance that GEUS' Steam Plant and Engine Plant electric generating units or TMPA's Gibbons Creek Steam Electric Station, a significant supplier of power to GEUS, will remain subject to the regulations currently in effect, will always be in compliance with present or future regulations or will always be able to obtain all required operating permits. In addition, more stringent environmental requirements may require significant upgrades in environmental controls, reduced operating levels or where the necessary upgrades are not economical, the complete shutdown of individual electric generating units.

The *Clean Air Act* (CAA), originating in 1967 with the *Air Quality Act*, has imposed increasingly stringent controls on air emissions from industrial facilities, including electric power generation facilities like GEUS' plants and TMPA's Gibbons Creek facility.

In February 2012, new standards were issued under the new name of Mercury and Air Toxics Standards (MATS), with a compliance deadline of April 16, 2015. TMPA requested and obtained the extension to April 15, 2016, in order to obtain sufficient time to adequately investigate and test mercury control technologies under different operating scenarios. The testing has been successfully completed and TMPA is in compliance with the MATS rule.

On September 7, 2016, the EPA finalized an update to the Cross-State Air Pollution Rule (CSAPR) for the 2008 ozone National Ambient Air Quality Standards (NAAQS) by issuing the final CSAPR Update. Starting in May 2017, this rule will reduce summertime (May - September) nitrogen oxides (NO_x) emissions from power plants in 22 states in the eastern U.S. The rule will reduce air quality impacts of ozone pollution that crosses state lines and will help downwind areas meet and maintain the 2008 ozone air quality standard. GEUS is compliant with the new CSAPR cap and trade.

Note 7: Electric Restructuring

The Texas Legislature enacted *Senate Bill 7* in 1999, which was a comprehensive electric deregulation and restructuring bill. This bill applies to GEUS and other municipal utilities in the state. Financial control of GEUS remains with the governing body, which for Greenville is the Board. Under the legislation, the Board will determine if and when the electric system will be open to competition at retail.

If GEUS is open to competition, then provisions are included for GEUS to collect its stranded costs through non-bypassable wire charges. The GEUS Board will retain authority to set electric rates that are sufficient to meet the financial obligations of the utility as specified in the Electric Utility Bond Ordinance.

The wholesale market, which is under the control of an independent system operator, the Electric Reliability Council of Texas (ERCOT), transitioned from a Zonal Market to a Nodal Market in December 2010. GEUS qualifies to receive allocated pre-assigned congestion revenue rights (PCRRs) for GEUS' portion of TMPA Gibbons Creek power and also receives PCRRs for GEUS' local generation which was operational in 1999 (and excludes the Engine Plant) which adequately mitigates GEUS' congestion charge risk in the Nodal Market.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 8: Employee Retirement Systems and Pension Plans

Texas Municipal Retirement System

Plan Description and Provisions

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided:

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. A summary of plan provisions for the City are as follows:

Employee deposit rate:	7%
Matching ratio (City to employee):	2 to 1
Years required for vesting:	5
Service retirement eligibility:	20 years at any age, 5 years at age 60 and above
Updated service credit:	100% repeating transfers
Annuity increase to retirees:	70% of CPI repeating
Supplemental death benefit – active employees and retirees	Yes

At the December 31, 2017 valuation and measurement date (the most current available), the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	272
Inactive employees entitled to but not receiving benefits	156
Active employees	<u>320</u>
	<u>748</u>

There are seven retirees for GEUS.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 8: Employee Retirement Systems and Pension Plans (continued)

Contributions

Employees for GEUS were required to contribute 7% of their annual gross earnings during 2018 and 2017. Employer contributions are actuarially determined. For the fiscal years ended September 30, 2018 and 2017, GEUS contributed \$848,263 and \$775,827, respectively, which equaled its required contributions.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. GEUS proportion is 40% based on retirement contributions.

Actuarial Assumptions

The total pension liability in the December 31, 2017 and 2016, actuarial valuations was determined using the following actuarial assumptions:

Inflation:	2.5%
Overall payroll growth	3.50% to 10.50% including inflation
Investment rate of return	6.75%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Assumptions are reviewed annually. No additional changes were made for the 2017 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)*NOTES TO FINANCIAL STATEMENTS (continued)**September 30, 2018***Note 8: Employee Retirement Systems and Pension Plans (continued)****Actuarial Assumptions (continued)**

The target allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return (Arithmetic)</u>
U.S. equities	17.5%	4.55%
International equities	17.5%	6.35%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	4.15%
Real estate	10.0%	4.15%
Real return	10.0%	4.75%
Absolute return	10.0%	4.00%
Private equity	5.0%	7.75%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 8: Employee Retirement Systems and Pension Plans (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the plan year:			
Service cost	\$ 1,037,143	\$ -	\$ 1,037,143
Interest	2,916,644	-	2,916,644
Difference between expected and actual experience	(182,255)	-	(182,255)
Changes of assumptions	-	-	-
Contributions - employer	-	782,680	(782,680)
Contributions - employee	-	500,345	(500,345)
Net investment income	-	5,529,771	(5,529,771)
Benefit payments, including refunds of employee contributions	(2,275,181)	(2,275,181)	-
Administrative expense	-	(28,666)	28,666
Other changes	-	(1,454)	1,454
Net Changes	1,496,351	4,507,496	(3,011,145)
Balance at December 31, 2016	43,828,561	39,909,420	3,919,141
Balance at December 31, 2017	\$ 45,324,912	\$ 44,416,916	\$ 907,995

Sensitivity of GEUS' Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability (asset) of GEUS as of September 30, 2018, calculated using the discount rate of 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
GEUS' proportionate share of the net pension liability (asset)	\$ 6,522,262	\$ 907,995	\$ (3,776,900)

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)**NOTES TO FINANCIAL STATEMENTS (continued)**

September 30, 2018

Note 8: Employee Retirement Systems and Pension Plans (continued)***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued TMRS final report. That report may be obtained on the Internet at www.tmr.com.

Pension Liabilities, Pension Expense and Deferred Outflows of Recourses Related to Pensions

At September 30, 2018 and 2017, GEUS reported a liability of \$907,995 and \$3,919,141, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. GEUS' proportion of the net pension liability was based on GEUS' actual contributions relative to the City's actual contributions for the respective fiscal years. At December 31, 2017 and 2016, GEUS' proportion was 40%.

For the years ended September 30, 2018 and 2017, GEUS recognized pension expense of \$971,617 and \$1,598,544, respectively.

At September 30, 2018 and 2017, GEUS reported deferred outflow/inflows of resources related to pensions from the following sources:

	<u>2018</u>		<u>2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ -	\$ (250,566)	\$ 31,743	\$ (210,144)
Changes of assumptions	196,455		422,265	
Net differences between projected and actual investment earnings	-	(1,098,925)	1,803,185	
Contributions subsequent to the measurement date through year-end	621,043		571,901	
Total	<u>\$ 817,498</u>	<u>\$ (1,349,491)</u>	<u>\$ 2,829,094</u>	<u>\$ (210,144)</u>

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 8: Employee Retirement Systems and Pension Plans (continued)

Pension Liabilities, Pension Expense and Deferred Outflows of Resources Related to Pensions (continued)

Deferred outflows of resources at September 30, 2018, related to pensions resulting from contributions subsequent to the measurement date of \$621,043 will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30,</u>	
2019	\$ 148,984
2020	(134,726)
2021	(600,116)
2022	<u>(567,178)</u>
Total	<u>\$ (1,153,036)</u>

Note 9: Postemployment Benefits Other Than Pensions (OPEB)

TMRS Supplemental Death Benefits Fund

The City and Component Units contribute to a single employer defined benefit group term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a separate trust administered by the TMRS Board of Trustees and is a voluntary program in which the City elected, by ordinance, to provide group term life insurance coverage to active and retired members. The City may terminate coverage and discontinue participation in the SDBF by adopting an ordinance before November 1, of any year to be effective the following January 1.

Contributions are made monthly based on the covered payroll of employee members of the City. The contractually required contribution rate is determined annually, and the rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the pension trust fund described above. The TMRS Act requires the pension trust fund to allocate investment income to the SDBF on an annual basis.

The funding policy of the plan is to assure adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you go basis; any excess contributions and investment income over payments then become net position available for postemployment benefits other than pension benefits (OPEB). GEUS' contributions to SDBF for the fiscal years ended September 30, 2018, 2017 and 2016, were \$17,502, \$17,283 and \$15,813, respectively, which equaled the required contributions each year.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 9: Postemployment Benefits Other Than Pensions (OPEB) (continued)

TMRS Supplemental Death Benefits Fund (continued)

Payments from this fund are similar to group term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary. The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF.

Membership for the City and Component Units in the plan as of the measurement date of December 31, 2017 was as follows:

Inactive plan members or beneficiaries currently receiving benefits	184
Inactive plan members entitled to but not yet receiving benefits	26
Active employees	<u>320</u>
Total plan members	<u>530</u>

The GEUS' total OPEB liability of \$458,607 was measured as of December 31, 2017, and was determined by an actuarial valuation as of December 31, 2016. GEUS' proportion was 40%.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB No. 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2017. At transition, GASB No.75 also requires that the Total OPEB Liability as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index as of the prior fiscal year end. The actuary has estimated the total OPEB liability as of December 31, 2016 using a discount rate of 3.78% as of December 31, 2016.

Plan Assets

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 9: Postemployment Benefits Other Than Pensions (OPEB)

TMRS Supplemental Death Benefits Fund (continued)

Actuarial Assumptions

The City's Total OPEB Liability was measured at December 31, 2017 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Valuation Date: December 31, 2017

Methods and Assumptions:

Inflation:	2.50%
Salary Increases:	3.50% to 10.50%, including inflation
Discount rate:	3.31%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.
Retirees' share of benefit related costs:	\$0
Administrative expenses:	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Other Information:

Notes: The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 9: Postemployment Benefits Other Than Pensions (OPEB) (continued)

TMRS Supplemental Death Benefits Fund (continued)

Changes in the Total OPEB Liability

Service cost	\$	16,440
Interest		15,209
Changes of benefit terms		-
Changes of assumptions		34,615
Benefit payments		(3,574)
Net change in total OPEB liability		<u>62,690</u>
Total OPEB liability - beginning		<u>395,917</u>
Total OPEB liability - ending	\$	<u>458,607</u>
Covered payroll	\$	7,147,780
Total OPEB liability as a percentage of covered payroll		6.42%

Sensitivity Analysis

The following presents proportionate share of GEUS for the Total OPEB Liability of the employer, calculated using the discount rate of 3.31%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

1% Decrease to 2.31%	Current Discount Rate Assumption 3.31%	1% Increase to 4.31%
\$ 546,626	\$ 458,607	\$ 389,279

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)*NOTES TO FINANCIAL STATEMENTS (continued)**September 30, 2018***Note 9: Postemployment Benefits Other Than Pensions (OPEB) (continued)***TMRS Supplemental Death Benefits Fund (continued)***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Activity**

For the year ended September 30, 2018, the GEUS recognized OPEB expense of \$38,544 relating to the SDBF plan.

As of September 30, 2018, the GEUS reported deferred outflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes assumptions	\$ 27,720	\$ -
Contributions subsequent to the measurement date	2,672	
Total	<u>\$ 30,392</u>	<u>\$ -</u>

GEUS contributions made subsequent to the measurement date of the total OPEB liability (December 31, 2017) and prior to year-end (September 30, 2018) will be recognized in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year	Net deferred outflows (inflows) of
2019	\$ 6,896
2020	6,896
2021	6,896
2022	6,896
2023	136
Total	<u>\$ 27,720</u>

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 9: Postemployment Benefits Other Than Pensions (OPEB) (continued)

Retiree Health Care Plan (RHCP)

The City's and Component Units' defined benefit OPEB plan, Retiree Health Care Plan (RHCP), provides OPEB through an implicit healthcare premium for retirees for all permanent full-time employees of the City. RHCP is a single employer defined benefit OPEB plan administered by the City. At this time, no assets are accumulated in a trust to fund the future requirements of the RHCP.

Benefits provided

RHCP provides access to post retirement employees by offering a "blended premium" structure, that is, the overall health care premiums for active employees and non-Medicare retirees, are stated in terms of a single "blended premium". The difference between the underlying retiree claims and the blended overall health care premium is referred to as an "implicit" subsidy. Because the underlying claims costs for a non-Medicare retiree are on average higher than the blended premium, there is a positive implicit subsidy for the non-Medicare retirees.

Employees covered by benefit terms. At December 31, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	17
Inactive plan members entitled to but not yet receiving benefits	0
Active employees	<u>377</u>
Total plan members	<u>394</u>

Total OPEB Liability

The proportionate share of GEUS for the total OPEB liability of \$107,044 was measured as of December 31, 2017, and was determined by an actuarial valuation as of December 31, 2016. GEUS proportion is 33.83% based on health insurance contribution.

Actuarial assumptions and methods

The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date: December 31, 2016

Methods and Assumptions:

Actuarial Cost Method:	Individual Entry-Age
Discount Rate:	3.31% as of December 31, 2017
Inflation:	2.50%
Salary Increases:	3.50% to 10.50% for TMRS and 4.35% for Firefighters, including Inflation.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 9: Postemployment Benefits Other Than Pensions (OPEB) (continued)

Retiree Health Care Plan (RHCP) (continued)

Actuarial assumptions and methods (continued)

Demographic Assumptions:	Based on the experience study covering the four year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality:	TMRS: For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Health Care Trend Rates:	Increases to the City's retiree medical subsidy are assumed to be in-line with general inflation.
Participation Rates:	It was assumed that 30% of retirees would receive a retiree healthcare subsidy from the City.

Other Information:

Notes: There were no benefits changes during the year.

Discount Rate

For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this valuation, the municipal bond rate is 3.31% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The discount rate was 3.81% as of the prior measurement date.

Plan Assets

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 9: Postemployment Benefits Other Than Pensions (OPEB) (continued)

Retiree Health Care Plan (RHCP) (continued)

Changes in the Total OPEB Liability

Service cost	\$	20,142
Interest on the total OPEB liability		16,100
Changes of benefit terms		-
Difference between expected and actual experience of the total OPEB liability		(4,294)
Changes of assumptions		17,317
Benefit payments		<u>(20,929)</u>
Net change in total OPEB liability		28,335
Total OPEB liability - beginning		<u>424,278</u>
Total OPEB liability - ending		<u><u>\$ 452,613</u></u>
 Covered payroll	 \$	 6,197,147
 Total OPEB liability as a percentage of covered payroll		 7.30%

The ending balance of the Total OPEB Liability was as of December 31, 2017. Changes of assumptions reflect a change in the discount rate from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the plan's total OPEB liability, calculated using a discount rate of 3.31%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

1% Decrease to	Current Discount Rate	1% Increase to
2.31%	Assumption	4.31%
3.31%	3.31%	4.31%
\$ 116,115	\$ 452,613	\$ 99,393

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

1% Decrease	Current Healthcare Cost	1% Increase
107,044	Trend Rate Assumption	107,044
3.31%	3.31%	4.31%
\$ 107,044	\$ 452,613	\$ 107,044

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 9: Postemployment Benefits Other Than Pensions (OPEB) (continued)

Retiree Health Care Plan (RHCP) (continued)

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

For the year ended September 30, 2018, GEUS recognized proportionate share in OPEB expense of \$37,813. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 3,792
Changes assumptions	15,292	-
Contributions subsequent to the measurement date	<u>15,695</u>	<u>-</u>
Total	<u>\$ 30,987</u>	<u>\$ 3,792</u>

GEUS contributions made subsequent to the measurement date of the total OPEB liability (December 31, 2017) and prior to year-end (September 30, 2018) will be recognized in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year</u>	<u>Net deferred outflows (inflows) of resources</u>
2019	\$ 1,522
2020	1,522
2021	1,522
2022	1,522
2023	1,522
Thereafter	<u>3,891</u>
Total	<u>\$ 11,500</u>

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 10: Disclosures about fair value of assets

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2018:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level				
Federal agency securities	\$ 4,113,176	\$ -	\$ 4,113,176	\$ -
U.S. Treasury obligations	<u>2,737,501</u>	<u>-</u>	<u>2,737,501</u>	<u>-</u>
Total investments by fair value level	<u>6,850,677</u>	<u>\$ -</u>	<u>\$ 6,850,677</u>	<u>\$ -</u>
Investments measured at net asset value				
LOGIC	483,953			
Texas DAILY	3,104,320			
Texas TERM	<u>7,738,042</u>			
Total investments measured at net asset value	11,326,315			
Investment measured at amortized cost	<u>480,621</u>			
Total investments	<u>\$ 18,657,613</u>			

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2018

Note 10: Disclosures about fair value of assets (continued)

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted

prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At September 30, 2018, no investments held by GEUS met the Level 3 hierarchy classification.

Note 11: Prior Period Adjustment

In the current fiscal year, GEUS implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the beginning net position of GEUS has been restated on the statement of revenues, expenses, and changes in net position to reflect the total OPEB liability and deferred outflow of resources relating to OPEB contributions made after the prior measurement date. The effect of the implementation of the new accounting pronouncement is summarized as follows:

	Statement of Net Position	Statement of Revenues, Expenses, and Changes in Net Position	
		Electric Operating Fund	Cable & Internet Fund
Business-Type Activity			
Net position at September 30, 2017, as previously reported	\$ 18,649,501	\$ 5,331,513	\$ 8,481,344
Total OPEB liability	(820,195)	(708,231)	(111,964)
OPEB contributions made after the measurement date	15,741	13,430	2,311
Total prior period adjustment	(804,454)	(694,801)	(109,653)
Net position at September 30, 2017, as restated	<u>\$ 17,845,047</u>	<u>\$ 4,636,712</u>	<u>\$ 8,371,691</u>

Note 12: Litigation and Contingencies

Various claims and lawsuits are pending in which the GEUS is involved. Included among the various actions are those for which the discovery process is currently underway or which have yet to proceed to trial. In the opinion of the GEUS legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of GEUS.

Required Supplementary Information

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF GEUS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST THREE MEASUREMENT YEARS
(UNAUDITED)

	Measurement Year		
	2017	2016	2015
GEUS' proportion of the net pension liability	40%	40%	40%
GEUS's proportionate share of the net pension liability	\$ 907,995	\$ 3,919,141	\$ 4,121,488
GEUS' covered payroll	\$ 7,147,780	\$ 6,907,272	\$ 6,875,419
GEUS' proportionate share of the net pension liability as a percentage of its covered payroll	12.70%	56.74%	59.95%
Plan fiduciary net position as a percentage of total pension liability	98.00%	91.06%	90.25%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, GEUS will present information for only years which information is available. Information has been determined as of GEUS' measurement date (December 31).

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF GEUS'S CONTRIBUTIONS (continued)
LAST THREE FISCAL YEARS
(UNAUDITED)

	Fiscal Year		
	2018	2017	2016
Actuarially determined contributions	\$ 848,263	\$ 775,827	\$ 761,630
Contribution in relation to the actuarially determined contribution	<u>848,263</u>	<u>775,827</u>	<u>761,630</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
GEUS' covered payroll	\$ 7,376,983	\$ 6,935,676	\$ 7,187,526
Contributions as a percentage of covered payroll	11.50%	11.19%	10.60%

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)
TEXAS MUNICIPAL RETIREMENT SYSTEM
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

Valuation Date:

Actuarial determined contribution rates are calculated as of December 31st each year and become effective in January, 12 months and a day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103# and projected on a fully generational basis with scale BB.

Other Information:

There were no benefit changes during the year.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, GEUS will present information for only years which information is available. Information has been determined as of GEUS' most recent fiscal year-end (September 30).

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)
REQUIRED OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTAL INFORMATION
September 30, 2018
(UNAUDITED)

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
GEUS PROPORTIONATE SHARE
TMRS SUPPLEMENTAL DEATH BENEFITS FUND
For the Last Measurement Year

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 16,440
Interest	15,209
Changes of benefit terms	-
Difference between expected and actual experience of the total OPEB liability	-
Changes of assumptions	34,615
Benefit payments	<u>(3,574)</u>
Net change in total OPEB liability	62,690
Total OPEB liability - beginning	<u>395,917</u>
Total OPEB liability - ending	<u>\$ 458,607</u>
Covered payroll	\$ 7,147,780
Total OPEB liability as a percentage of covered payroll	6.42%

Notes to the Required Supplementary Information

Amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end.

Total OPEB liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 75.

Ten years of data should be presented in this schedule but data was unavailable.

GREENVILLE ELECTRIC UTILITY SYSTEM (GEUS)
REQUIRED OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTAL INFORMATION
September 30, 2018
(UNAUDITED)

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
GEUS PROPORTIONATE SHARE
RETIREE HEALTH CARE PLAN
For the Last Measurement Year

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 20,142
Interest on the total OPEB liability	16,099
Changes of benefit terms	-
Difference between expected and actual experience of the total OPEB liability	(4,294)
Changes of assumptions	17,317
Benefit payments	<u>(20,929)</u>
Net change in total OPEB liability	28,335
Total OPEB liability - beginning	<u>424,278</u>
Total OPEB liability - ending	<u>\$ 452,613</u>
Covered payroll	\$ 6,197,147
Total OPEB liability as a percentage of covered payroll	7.30%

Notes to the Required Supplementary Information

Amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end.

Total OPEB liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 75.

Ten years of data should be presented in this schedule but data was unavailable.