

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

Independent Auditor's Report and Financial Statements

September 30, 2015 and 2014



GEUS
September 30, 2015 and 2014

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Independent Auditor's Report

Board of Trustees
GEUS
Greenville, Texas

Report on the Financial Statements

We have audited the accompanying basic financial statements of GEUS, a component unit of the City of Greenville, Texas, which are comprised of statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the basic financial statements.

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.

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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2015, GEUS changed its method of accounting for pensions with the adoption of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended. 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 and pension 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The combining statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2016, on our consideration of GEUS's 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 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 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's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
April 21, 2016

GEUS

Management Discussion and Analysis

Years Ended September 30, 2015 and 2014

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 at the close of the fiscal year ended September 30, 2015, by \$59,185,382 (net position). Of this amount, \$24,711,704 (unrestricted net position) may be used to meet GEUS' ongoing obligations to customers and creditors. Of the unrestricted net position, \$220,508 has been designated for debt reduction and \$100,701 has been designated for capital improvements by the GEUS Board of Trustees.

GEUS' total net position increased by \$2,872,837 from current year operations. This increase is mainly the result of rate changes as of October 1, 2014 and lower fuel and energy expenses. The implementation of GASB 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended, restated the beginning of year net position by \$3,508. Financial information for 2014 and 2013 was not restated for the adoption of GASB 68.

GEUS' revenue bond liabilities increased by \$2,808,000 during the current fiscal year, due to the issuance of revenue bonds offset by annual principal payment.

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 and deferred outflows and liabilities and provide information about the nature and amounts of investments in resources (assets and deferred outflows) and the obligations to creditors (liabilities). It also provides the 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.

GEUS

Management Discussion and Analysis (Continued)

Years Ended September 30, 2015 and 2014

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 operations, investing and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

	September 30,		
	2015	2014	2013
Assets			
Electric plant, net	\$ 57,089,319	\$ 58,064,953	\$ 57,272,578
Cable and internet equipment, net	8,278,940	8,868,056	9,362,916
Restricted assets	8,543,713	8,171,483	11,336,687
Prepaid electric costs	38,742,732	37,177,281	36,011,023
Current assets	<u>23,139,995</u>	<u>18,217,219</u>	<u>16,645,763</u>
Total assets	<u>135,794,699</u>	<u>130,498,992</u>	<u>130,628,967</u>
Deferred Outflows of Resources	<u>922,756</u>	<u>-</u>	<u>-</u>
Liabilities			
Long-term liabilities, less current maturities	71,503,823	68,150,292	68,671,903
Payable from restricted assets	2,794,712	2,571,125	2,479,960
Current liabilities	<u>3,233,538</u>	<u>3,461,522</u>	<u>4,572,842</u>
Total liabilities	<u>77,532,073</u>	<u>74,182,939</u>	<u>75,724,705</u>
Net Position			
Net investment in capital assets	29,311,545	30,438,242	29,718,020
Restricted for revenue bond debt service	5,162,133	4,966,778	4,959,453
Unrestricted	<u>24,711,704</u>	<u>20,911,033</u>	<u>20,226,789</u>
Total net position	<u>\$ 59,185,382</u>	<u>\$ 56,316,053</u>	<u>\$ 54,904,262</u>

Net Position

Net position increased by \$2,872,837 or 5.1% for the year ended September 30, 2015. This increase is mainly the result of rate changes as of October 1, 2014 and lower fuel and energy expenses.

Net position increased by \$1,411,791 or 2.6% for the year ended September 30, 2014. The increase is primarily due to increased off system electric sales as well as the insurance reimbursement for capital expenses at the steam plant.

GEUS

Management Discussion and Analysis (Continued)

Years Ended September 30, 2015 and 2014

Current Assets

The \$4.92 million increase in current assets as of September 30, 2015 is mainly attributable to lower expenses as well as an increase in accounts receivable due to a combination of rate and consumption increases.

The \$1.57 million increase in current assets as of September 30, 2014 is mainly attributable to current year change in net position

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 \$1.6 million from \$66.9 million as of September 30, 2014 to \$65.3 million as of September 30, 2015. The decrease is related mostly to the write off of fully depreciated assets. Asset purchases totaled \$2.3 million and depreciation expense of \$3.9 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, increased approximately \$300,000 from \$66.6 million as of September 30, 2013 to \$66.9 million as of September 30, 2014. The increase is related mostly to steam plant upgrades for electric and cable television upgrades for C/I and depreciation. Asset purchases totaled \$4.3 million and depreciation expense of \$3.8 million was recorded.

Future capital expenditures are expected to range from a high of \$2.6 million in 2017 to a low of \$1.9 million projected in 2018.

Current Liabilities

Current liabilities decreased by \$227,984 from September 30, 2014 to September 30, 2015, primarily due to a decrease in accounts payable offset by an increase in accrued compensated absences.

Current liabilities decreased by \$1,111,320 from September 30, 2013 to September 30, 2014, primarily due to a \$1,251,442 decrease in accounts payable.

Long-term Liabilities

GEUS' long-term liabilities increased approximately \$3,353,000 for the year ended September 30, 2015. The increase was due to the issuance of revenue bonds and the recording of a net pension liability as the result of the implementation of Governmental Accounting Standards Board Statement No. 68. GEUS' underlying debt is rated "A2" and "A+" by Moody's and Standard and Poor's, respectively.

GEUS

Management Discussion and Analysis (Continued)

Years Ended September 30, 2015 and 2014

GEUS' long-term liabilities decreased approximately \$522,000 for the year ended September 30, 2014. The decrease was due to the scheduled principal payment in 2014 plus a decrease in accrued compensated absences due to significant retirements.

	For the Years Ending September 30,		
	2015	2014	2013
Revenues			
Operating revenues	\$ 64,189,234	\$ 65,433,708	\$ 59,816,322
Nonoperating revenues – other	98,887	75,756	81,661
Nonoperating revenues – insurance recoveries	506,550	2,500,000	-
Total revenues	<u>64,794,671</u>	<u>68,009,464</u>	<u>59,897,983</u>
Expenses			
Other operating expense	54,678,765	59,345,552	53,225,237
Depreciation expense	3,911,061	3,797,529	3,811,878
Nonoperating expense	<u>3,332,008</u>	<u>3,454,592</u>	<u>3,309,699</u>
Total expenses	<u>61,921,834</u>	<u>66,597,673</u>	<u>60,346,814</u>
Change in Net Position	<u>2,872,837</u>	<u>1,411,791</u>	<u>(448,831)</u>
Net Position, As Previously Reported	56,316,053	54,904,262	56,274,673
Cumulative Effect Adjustment	<u>(3,508)</u>	<u>-</u>	<u>(921,580)</u>
Net Position, Beginning of Year	<u>56,312,545</u>	<u>54,904,262</u>	<u>55,353,093</u>
Net Position, End of Year	<u>\$ 59,185,382</u>	<u>\$ 56,316,053</u>	<u>\$ 54,904,262</u>

Revenues and Expenses

GEUS' operating revenues decreased approximately \$1.2 million for the year ended September 30, 2015 compared to September 30, 2014. The decrease is due to a \$7.4 million decrease in off-system sales largely due to the lower natural gas prices which reduces GEUS's competitive advantage in the Nodal market and a \$1.9 million decrease in fuel adjustment revenues. These decreases were offset by several increases in revenues due to rate changes and a slight increase in transmission cost of service TCOS revenues totaling \$7.6 million. Miscellaneous revenues increased almost \$200,000. Cable and Internet (C/I) revenues were up by approximately \$400,000 primarily due to growth in cable and in Internet sales. Insurance recoveries were received due to a mechanical failure at a steam plant which occurred in the fiscal year ending September 30, 2014. No additional recoveries are expected in relation to this issue.

GEUS

Management Discussion and Analysis (Continued)

Years Ended September 30, 2015 and 2014

GEUS' charges for services increased approximately \$5.6 million for the year ended September 30, 2014 compared to September 30, 2013. The increase is due to a \$5.5 million increase in off-system sales largely due to the way the Nodal market works and was offset by increased costs of power. These sales are tied to how much TMPA's Gibbons Creek plant runs and it ran more than in 2013. Retail sales were down \$110,000 due to the mild summer, TCOS revenues were down \$100,000 due to matrix changes and miscellaneous revenues were up \$135,000 due to increases in late and service charges as well as fees for new services. C/I revenues were up by approximately \$380,000 primarily due to growth in cable and in Internet sales. Insurance recoveries were received due to a mechanical failure at a steam plant.

Operating expenses decreased by \$4.7 million for the year ended September 30, 2015 compared to September 30, 2014. The decrease is primarily due to a decrease in fuel and purchased power costs of \$4.4 million. Administrative expenses decreased \$700,000. These decreases were offset by \$170,000 increases in engineering and operations (E&O) expenses and in C/I operation expenses (primarily programming). Franchise and Greenville Board of Development (GBOD), another component unit of the City transfers increased \$300,000 due to the higher retail revenues. This was offset by a \$100,000 decrease in administrative expenses due to the implementation of GASB Statement No. 68 and a \$100,000 decrease in allocated services from the City.

Operating expenses increased by \$6.1 million for the year ended September 30, 2014 compared to September 30, 2013. The increase is primarily due to an increase in fuel and purchased power costs of \$5.8 million. The other production expenses declined \$1.7 million due to the fact that a major turbine overhaul of all three units at the steam plant that was done in 2013. Admin expenses increased \$654,000 due to personnel changes in preparation for retirements and due to AMPY losses. E&O expenses increased \$681,000 due to TCOS matrix expense increases, the filing of a TCOS case and to changes in payroll (less charged to capital labor.) C/I expenses increased \$538,000 due to higher programming and ISP costs as well as personnel increases. Other expenses were up \$372,000 primarily due to increased bad debt expense, PTO payouts and the increased costs determined by the allocation of shared expense with the City.

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 North, Greenville, Texas 75402.



GEUS

Statements of Net Position

September 30, 2015 and 2014

Assets

	2015	2014
Noncurrent Assets		
Property, Plant and Equipment		
Production	\$ 49,528,534	\$ 58,106,193
Transmission	10,484,946	12,780,683
Distribution	25,356,730	26,505,315
General	9,911,567	9,731,915
Construction in progress	368,786	-
Cable and internet	18,608,263	18,420,527
	<hr/>	<hr/>
Property, plant and equipment	114,258,826	125,544,633
Less accumulated depreciation	48,890,567	58,611,624
	<hr/>	<hr/>
Property, plant and equipment, net	65,368,259	66,933,009
	<hr/>	<hr/>
Restricted Assets		
Cash and cash equivalents	7,556,073	2,334,283
Investments	987,640	5,837,200
	<hr/>	<hr/>
Total restricted assets	8,543,713	8,171,483
	<hr/>	<hr/>
Prepaid Electric Costs	38,742,732	37,177,281
	<hr/>	<hr/>
Total noncurrent assets	112,654,704	112,281,773
	<hr/>	<hr/>
Current Assets		
Equity in pooled cash	5,394,512	1,816,671
Investments	7,036,702	6,852,763
Accounts receivable, net of allowance for uncollectible amounts of \$534,997 and 353,590, respectively	7,612,158	6,586,167
Other receivable	4,159	4,158
Prepaid expense	93,321	84,629
Inventories	2,999,143	2,872,831
	<hr/>	<hr/>
Total current assets	23,139,995	18,217,219
	<hr/>	<hr/>
Total assets	135,794,699	130,498,992
	<hr/>	<hr/>
Deferred Outflows of Resources		
Pension contributions after measurement date	531,979	-
Difference between projected/actual earnings – pensions	386,140	-
Difference between expected/actual experience – pensions	4,637	-
	<hr/>	<hr/>
Total deferred outflows of resources	922,756	-
	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 136,717,455	\$ 130,498,992
	<hr/>	<hr/>

See Notes to Financial Statements

Net Position and Liabilities

	2015	2014
Net Position		
Net investment in capital assets	\$ 29,311,545	\$ 30,438,242
Restricted for debt service	5,162,133	4,966,778
Unrestricted	24,711,704	20,911,033
Total net position	59,185,382	56,316,053
Long-term Liabilities, Less Current Maturities		
Revenue bonds payable	69,798,000	67,010,000
Bond premium (discount), net	635,202	676,127
Accrued compensated absences	373,539	464,165
Net pension liability	697,082	-
Total long-term liabilities, less current maturities	71,503,823	68,150,292
Payable from Restricted Assets		
Revenue bonds – current	455,000	435,000
Customer deposits	1,914,213	1,722,325
Accrued interest	425,499	413,800
Total payable from restricted assets	2,794,712	2,571,125
Current Liabilities		
Accounts payable	1,374,402	1,732,335
Accrued liabilities	401,958	367,537
Due to component units of the primary government	163,841	171,134
Due to primary government	819,207	855,670
Accrued compensated absences	474,130	334,846
Total current liabilities	3,233,538	3,461,522
Total liabilities	77,532,073	74,182,939
Total net position and liabilities	\$ 136,717,455	\$ 130,498,992

GEUS

Statements of Revenues, Expenses and Changes in Net Position Years Ended September 30, 2015 and 2014

	2015	2014
Operating Revenues		
Electric	\$ 58,167,459	\$ 59,813,332
Cable and internet	6,021,775	5,620,376
Total operating revenues	64,189,234	65,433,708
Operating Expenses		
Electric	45,250,943	50,177,109
Cable and internet operations	4,722,986	4,549,820
Administrative	234,909	311,705
Insurance	234,816	245,118
City Services	647,480	773,273
Pilot	350,000	350,000
General fund	2,698,026	2,448,772
Board of development	539,605	489,755
Total operating expenses	54,678,765	59,345,552
Operating Income Before Depreciation	9,510,469	6,088,156
Less Depreciation	3,911,061	3,797,529
Operating Income	5,599,408	2,290,627
Nonoperating Revenue (Expenses)		
Investment earnings	78,011	35,176
Insurance recoveries	506,550	2,500,000
Interest expense	(3,310,403)	(3,325,365)
Bond issuance costs	(62,530)	-
Amortization	40,925	40,580
Other income (expense)	20,876	(129,227)
Total nonoperating revenue (expenses), net	(2,726,571)	(878,836)
Change in Net Position	2,872,837	1,411,791
Net Position, Beginning of Year, as Previously Reported	56,316,053	54,904,262
Cumulative Effect Adjustment	(3,508)	-
Net Position, Beginning of Year, as Adjusted	56,312,545	54,904,262
Net Position, End of Year	\$ 59,185,382	\$ 56,316,053

GEUS

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from customers and users	\$ 63,355,130	\$ 65,392,424
Cash paid to employees	(9,558,181)	(9,359,066)
Cash paid to suppliers	(44,368,831)	(49,775,360)
Net cash provided by operating activities	9,428,118	6,257,998
Investing Activities		
Purchases of investments, net	4,665,621	(1,948,643)
Interest on investments	78,011	35,176
Net cash provided by (used in) investing activities	4,743,632	(1,913,467)
Financing Activities		
Purchase of capital assets	(2,347,882)	(4,269,229)
Purchase of prepaid electric costs	(3,000,000)	(2,500,000)
Proceeds from sale of capital assets	22,447	44,958
Insurance recoveries	506,550	2,500,000
Issuance of long term debt	3,243,000	-
Principal payments	(435,000)	(420,000)
Interest and fiscal charges	(3,361,234)	(3,327,503)
Net cash used in operating activities	(5,372,119)	(7,971,774)
Increase (Decrease) in Cash and Cash Equivalents	8,799,631	(3,627,243)
Cash and Cash Equivalents, Beginning of Year	4,150,954	7,778,197
Cash and Cash Equivalents, End of Year	<u>\$ 12,950,585</u>	<u>\$ 4,150,954</u>
Reconciliation of Operating Income to Net Cash provided by Operating Activities:		
Operating income	\$ 5,599,408	\$ 2,290,627
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,911,061	3,797,529
Amortization of prepaid electric	1,434,549	-
Change in pension expense	(229,182)	-
Provision for bad debts	181,407	38,684
Change in		
Receivables	(1,207,399)	(146,422)
Prepaid assets	(8,692)	1,367,043
Inventory	(126,312)	(10,415)
Due to component units of the primary government	(7,293)	(8,178)
Due to primary government	(36,463)	(25,022)
Compensated absences	48,658	6,863
Deposits payable	191,888	78,303
Accounts payable and accrued liabilities	(323,512)	(1,131,014)
Net Cash Provided by Operating Activities	<u>\$ 9,428,118</u>	<u>\$ 6,257,998</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Equity in pooled cash	\$ 5,394,512	\$ 1,816,671
Restricted cash	7,556,073	2,334,283
Total cash and cash equivalents	<u>\$ 12,950,585</u>	<u>\$ 4,150,954</u>

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

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 and Financial Accounting Standards Boards. The following represents the more significant accounting and reporting policies and practices used by the Electric 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.

Basis of Accounting

GEUS is accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as incurred.

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.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

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 for on the flow of economic resources measurement focus and uses 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.

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.

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 income.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or estimated fair market 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

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

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 (TRMS), 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:

	2015	2014
5% General fund transfer to City	\$ 2,698,026	\$ 2,448,772
1% Transfer to the City for BOD	539,605	489,755
Payment in lieu of property taxes	350,000	350,000
General and administrative	<u>647,480</u>	<u>773,273</u>
	<u><u>\$ 4,235,111</u></u>	<u><u>\$ 4,061,800</u></u>

Cash and Cash Equivalents

For purposes of the statement of cash flows, GEUS considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

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 bonds-outstanding method, which approximates 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. The prepayment is being amortized 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. The amount being amortized relates to the debt issued and proceeds transferred by GEUS to TMPA for the early retirement of TMPA debt. Additionally, beginning in 2012, a portion of the following year's demand costs are being prepaid using cash accumulated for this purpose. This is being amortized along with the prior prepaid costs.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

Pensions

For purposes of measuring the net pension liability, deferred outflows 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.

Changes in Accounting Principle

The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended, which became effective for fiscal 2015. This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer's financial statements for any actuarially unfunded portion of pension benefits earned to date.

The implementation of Statement No. 68 resulted in a restatement of beginning net position at October 1, 2014, for the recording of the beginning net pension liability and the beginning deferred outflow of resources for contributions made after the December 31, 2013 measurement date through September 30, 2014. Adjustments to beginning net position for the adoption of GASB 68 are as follows:

Net position at October 1, 2014	
as previously reported	\$ 56,316,053
Recording of net pension liability	
as of October 1, 2014	(562,162)
Deferral for pension contributions	
made after the measurement date	<u>558,654</u>
Net position at October 1, 2014	
as restated	<u><u>\$ 56,312,545</u></u>

Financial statements for 2014 were not restated for the adoption of GASB 68 because actuarial information necessary for such restatement was not readily available, thus making restatement of the 2014 financial statements impractical.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

Note 2: Deposits and Investments

Cash and investments as of September 30, 2015 and 2014, are classified in the accompanying financial statements as follows:

	2015	2014
Statement of net position		
Equity in pooled cash	\$ 5,394,512	\$ 1,816,671
Restricted cash	7,556,073	2,334,283
Investments	7,036,702	6,852,763
Restricted investments	<u>987,640</u>	<u>5,837,200</u>
Total cash and investments	<u>\$ 20,974,927</u>	<u>\$ 16,840,917</u>

Deposits and investments as of September 30, 2015 and 2014, consist of the following:

	2015	2014
Cash on hand	\$ 3,159	\$ 3,159
Savings and checking accounts	7,455,988	4,147,795
Investments	<u>13,515,780</u>	<u>12,689,963</u>
Total cash and investments	<u>\$ 20,974,927</u>	<u>\$ 16,840,917</u>

The table below identifies the investment types that are authorized for GEUS by the 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	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	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

Notes to Financial Statements

September 30, 2015 and 2014

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'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.

As of September 30, 2015, GEUS had the following investments:

Investment Type	Amount	Days to Maturity
TexPool	\$ 437,436	1
Logic	437,517	1
Texas Daily	180,435	1
Texas Term	4,436,050	1
Federal agency securities	<u>8,024,342</u>	908
Total	<u><u>\$ 13,515,780</u></u>	
Portfolio weighted-average maturity		348

As of September 30, 2015, GEUS did not invest in any securities which are highly sensitive to interest rate fluctuations.

As of September 30, 2014, GEUS had the following investments:

Investment Type	Amount	Days to Maturity
TexPool	\$ 405,923	1
Logic	405,769	1
Texas Daily	462,303	1
Texas Term	3,968,000	1
Federal agency securities	<u>7,447,968</u>	942
Total	<u><u>\$ 12,689,963</u></u>	
Portfolio weighted-average maturity		417

As of September 30, 2014, GEUS did not invest in any securities which are highly sensitive to interest rate fluctuations.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

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.

September 30, 2015			
Investment Type	Amount	Minimum Legal Rating	Rating as of Year-end
TexPool	\$ 437,436	N/A	AAAm
Logic	437,517	N/A	AAA
Texas Daily	180,435	N/A	AAAm
Texas Term	4,436,050	N/A	AAAf
Federal agency securities	<u>8,024,342</u>	N/A	AA+
Total	<u>\$ 13,515,780</u>		

September 30, 2014			
Investment Type	Amount	Minimum Legal Rating	Rating as of Year-end
TexPool	\$ 405,923	N/A	AAAm
Logic	405,769	N/A	AAA
Texas Daily	462,303	N/A	AAAm
Texas Term	3,968,000	N/A	AAAf
Federal agency securities	<u>7,447,968</u>	N/A	AA+
Total	<u>\$ 12,689,963</u>		

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, 2015, other than external investment pools, investments that represent 5% or more of GEUS' total are as follows.

Investment	Investment Type	Amount
U.S. Treasury Notes	Federal agency securities	\$ 3,388,404
FHLMC	Federal agency securities	<u>2,224,312</u>
Total		<u>\$ 5,612,716</u>

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

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.

The 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 Public Funds Investment 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, 2015, GEUS deposits with financial institutions in excess of federal depository insurance limits were fully collateralized during the year.

Investment in State Investment Pools

All of the pools are chartered by the state of Texas. Portfolios consist only of those investments that are authorized by the State of Texas Public Funds Investment Act and GEUS' investment policy. Although there is no regulatory oversight over Texas Daily, advisory boards consisting of participants and their designees maintain oversight responsibility for the investment pools. Assets held in the investment pools are carried at amortized cost, which is the same as the value of the pool shares of the external investment pools.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

Note 3: Capital Assets

A summary of GEUS' capital assets at September 30, 2015, are as follows:

	Balance September 30, 2014	Increases	Decreases	Transfers	Balance September 30, 2015
GEUS 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	-	368,786	-	-	368,786
Total capital assets not being depreciated	<u>543,613</u>	<u>368,786</u>	<u>-</u>	<u>-</u>	<u>912,399</u>
Production	57,945,002	365,867	(8,943,526)	-	49,367,343
Transmission	12,727,182	91,608	(2,387,345)	-	10,431,445
Distribution	26,286,897	798,188	(1,946,775)	-	25,138,310
General	9,621,412	215,446	(35,797)	-	9,801,061
Cable and internet	18,420,527	507,987	(320,251)	-	18,608,263
Total assets being depreciated	<u>125,001,020</u>	<u>1,979,096</u>	<u>(13,633,694)</u>	<u>-</u>	<u>113,346,422</u>
Production	23,673,576	1,290,278	(8,943,526)	-	16,020,328
Transmission	7,567,664	262,918	(2,387,345)	-	5,443,237
Distribution	13,140,861	892,605	(1,946,775)	-	12,086,691
General	4,677,052	368,153	(34,222)	-	5,010,983
Cable and internet	9,552,471	1,097,107	(320,255)	-	10,329,323
Total accumulated depreciation	<u>58,611,624</u>	<u>3,911,061</u>	<u>(13,632,123)</u>	<u>-</u>	<u>48,890,562</u>
GEUS activities capital assets, net	<u>\$ 66,933,009</u>	<u>\$ (1,563,179)</u>	<u>\$ (1,571)</u>	<u>\$ -</u>	<u>\$ 65,368,259</u>

A summary of GEUS' capital assets at September 30, 2014, are as follows:

	Balance September 30, 2013	Increases	Decreases	Transfers	Balance September 30, 2014
GEUS 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
Total capital assets not being depreciated	<u>543,613</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>543,613</u>
Production	55,377,906	2,676,513	(109,417)	-	57,945,002
Transmission	12,734,981	83,459	(91,258)	-	12,727,182
Distribution	26,093,863	656,040	(463,006)	-	26,286,897
General	9,829,276	207,917	(406,104)	(9,677)	9,621,412
Cable and internet	18,215,417	645,301	(449,868)	9,677	18,420,527
Total assets being depreciated	<u>122,251,443</u>	<u>4,269,230</u>	<u>(1,519,653)</u>	<u>-</u>	<u>125,001,020</u>
Production	22,481,929	1,216,651	(25,004)	-	23,673,576
Transmission	7,396,653	262,269	(91,258)	-	7,567,664
Distribution	12,724,428	879,439	(463,006)	-	13,140,861
General	4,704,051	358,663	(381,000)	(4,662)	4,677,052
Cable and internet	8,852,501	1,080,507	(385,199)	4,662	9,552,471
Total accumulated depreciation	<u>56,159,562</u>	<u>3,797,529</u>	<u>(1,345,467)</u>	<u>-</u>	<u>58,611,624</u>
GEUS activities capital assets, net	<u>\$ 66,635,494</u>	<u>\$ 471,701</u>	<u>\$ (174,186)</u>	<u>\$ -</u>	<u>\$ 66,933,009</u>

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

Note 4: Long-term Debt

A summary of changes in general long-term liabilities for GEUS for the year ended September 30, 2015:

	Balance September 30, 2014 (Restated)	Additions	Deletions	Balance September 30, 2015	Within One Year
Bonds payable:					
Revenue bonds	\$ 67,445,000	\$ 3,243,000	\$ (435,000)	\$ 70,253,000	\$ 455,000
Less deferred amounts:					
Issuance premiums	824,524	-	(52,806)	771,718	-
Issuance discounts	(148,397)	-	11,881	(136,516)	-
Total bonds payable	68,121,127	3,243,000	(475,925)	70,888,202	455,000
Net pension liabilities	562,162	134,920	-	697,082	-
Compensated absences	799,011	522,788	(474,130)	847,669	474,130
Total activity	<u>\$ 69,482,300</u>	<u>\$ 3,900,708</u>	<u>\$ (950,055)</u>	<u>\$ 72,432,953</u>	<u>\$ 929,130</u>

A summary of changes in general long-term liabilities for GEUS for the year ended September 30, 2014:

	Balance September 30, 2013	Additions	Deletions	Balance September 30, 2014	Within One Year
Bonds payable:					
Revenue bonds	\$ 67,865,000	\$ -	\$ (420,000)	\$ 67,445,000	\$ 435,000
Less deferred amounts:					
Issuance premiums	877,330	-	(52,806)	824,524	-
Issuance discounts	(160,623)	-	12,226	(148,397)	-
Total bonds payable	68,581,707	-	(460,580)	68,121,127	435,000
Compensated absences	792,148	341,709	(334,846)	799,011	334,846
Total activity	<u>\$ 69,373,855</u>	<u>\$ 341,709</u>	<u>\$ (795,426)</u>	<u>\$ 68,920,138</u>	<u>\$ 769,846</u>

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Electric system revenue bonds, Series 2008, \$16,615,000 originally issued with rates ranging from 4.00% to 5.45%, matures in September 2035	\$ 14,600,000	\$ 15,035,000
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 rate of 1.71%, matures in February 2019	2,447,000	-
Electric system revenue refunding bonds, Series 2015 Taxable, \$796,000 originally issued with rate of 2.68%, matures in February 2019	796,000	-
	<u>70,253,000</u>	<u>67,445,000</u>
Current maturities	<u>(455,000)</u>	<u>(435,000)</u>
Total long-term debt	<u>\$ 69,798,000</u>	<u>\$ 67,010,000</u>

In September 2015, GEUS issued \$2,447,000 of Electric System Revenue Refunding Bonds, Series 2015 and \$796,000 of Electric System Revenue Refunding Bonds, Taxable Series 2015. The debt was issued to assist in the refunding of TMPA Revenue Refunding Bonds, Series 1993. The obligations are payable in 2019.

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.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

The debt service requirements on the aforementioned bonded debt as of September 30, 2015, are as follows:

Fiscal Year	Principal	Interest	Total Principal and Interest
2016	\$ 455,000	\$ 3,348,935	\$ 3,803,935
2017	475,000	3,337,179	3,812,179
2018	490,000	3,317,879	3,807,879
2019	2,260,000	3,221,922	5,481,922
2020	5,613,000	3,078,187	8,691,187
2021 - 2025	13,775,000	13,469,925	27,244,925
2026 - 2030	17,615,000	9,618,202	27,233,202
2031 - 2035	22,510,000	4,721,325	27,231,325
2036 - 2040	<u>7,060,000</u>	<u>917,500</u>	<u>7,977,500</u>
	<u>\$ 70,253,000</u>	<u>\$ 45,031,054</u>	<u>\$ 115,284,054</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 for a period of not less than 35 years.

The Cities, in turn, are obligated to take or pay for their percentage share of power and energy generated by TMPA at prices intended 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 the energy delivered to consumers in the prior operating year.

For the years ended September 30, 2015 and 2014, payments to TMPA totaled \$16,283,612 and \$13,478,646, respectively. For the years ended September 30, 2015 and 2014, \$542,150 and \$1,401,007 of accounts payable, respectively, was due to TMPA.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

As of September 30, 2015 and 2014, total TMPA debt outstanding was approximately \$580,191,000 and \$721,652,000, 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 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):

	2015	2014
Operating revenues	\$ 274,578	\$ 271,281
Operating expenses	132,171	143,548
Operating income	142,407	127,733
Interest charges	(33,642)	(43,277)
Current assets	68,335	74,442
Total assets	826,228	952,071
Long-term liabilities	651,851	776,087
Total liabilities	801,623	919,123
Total net position	34,076	40,943

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 \$539,605 and \$489,755 related to the Board of Development portion during the years ended September 30, 2015 and 2014, respectively.

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.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

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 March 2005, the U.S. Environmental Protection Agency (EPA) issued new air emission regulations. These were to provide more stringent standards for SO₂ and NO_x under the Clean Air Interstate Rule (CAIR) and for mercury (Hg) under the Clean Air Mercury Rule (CAMR). But CAIR was vacated by the U.S. Court of Appeals for the Washington D.C. Circuit on July 11, 2008, and reinstated as an interim measure by the same court on December 28, 2008. In July 2010, EPA released its proposed replacement rule, known as the "Clean Air Transport Rule" (or Transport Rule), scheduled to become effective in 2012. Under the proposed rule, TMPA would have been subject to a seasonal (as opposed to annual) cap-and-trade program in which it receives summer-season (May through September) NO_x credit allocations. Annual SO₂ and NO_x credit allocations under the interim CAIR cap-and-trade program were to cease at the end of 2011. In July 2011, the EPA released the final Transport Rule re-named as the Cross-State Air Pollution Rule (CSAPR) which also included cap-and-trade programs for annual SO₂ and annual NO_x emissions. These programs came into effect on January 1, 2012. However, on August 21, 2012, the Washington D.C. Circuit Court of Appeals vacated CSAPR and remanded rule-making to EPA. In the meantime, CAIR has been reinstated until replacement rules are developed.

Whatever rules are finally promulgated, TMPA expects to be able to comply with new emissions caps because it has a refurbished scrubber, which was placed back into service in April 2011, for control of SO₂ and will be fine-tuning its combustion processes for control of NO_x.

On February 2, 2008, the U.S. Court of Appeals for the Washington D.C. Circuit also vacated CAMR. The court charged EPA with writing a replacement rule that will require the use of a fixed Maximum Achievable Control Technology (MACT) standard instead of the more flexible cap-and-trade credit program previously envisioned under CAMR. The MACT standard is defined as the average emission limit attained by the best-performing 12% of electrical generating units. In order to determine this limit, the EPA required nationwide stack emissions testing in summer 2010.

The new standards were issued under the new name of Mercury and Air Toxics Standards (MATS) in February 2012, with a compliance deadline of April 16, 2015 (with provision for a one-year extension, which TMPA has requested). TMPA is investigating mercury control technologies including the use of its refurbished scrubber to meet the expected standards.

In addition to these revisions of previous rules, the federal government is developing new standards for Greenhouse Gas emissions, and especially emissions of carbon dioxide (CO₂). This is occurring on two parallel paths: through the development of legislation in the U.S. Congress and through rule-making by EPA. Rule-making is ahead of the legislation and new rules for CO₂ came into effect in 2011. GEUS and TMPA are in compliance with the new rules and expect to remain in compliance for the foreseeable future.

In addition to these regulations, new regulations for cooling water intake structures were introduced in July 2004. GEUS and TMPA have performed monitoring of fish impingement at the intakes for compliance with these regulations.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

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 from congestion charge risks in the Nodal Market.

Note 8: Employee Retirement Systems and Pension Plans

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS, 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) is an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com. In accordance with GASB 68, as a component unit of the City, GEUS accounts for its participation in the plan in its stand-alone financial statements as if it was a cost-sharing employer and applies the requirements for cost-sharing employers in its footnotes and RSI.

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

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

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.

A summary of plan provisions for GEUS is as follows:

Employee Deposit Rate:	7.0%
Matching Ratio (City to employee):	2 to 1
Years required for vesting	5 years
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	0% of CPI

Contributions

Employees for GEUS were required to contribute 7% of their annual gross earnings during the fiscal year. Employer contributions are actuarially determined. For the fiscal year ended September 30, 2015, GEUS contributed \$743,713, which equaled its required contributions. The contribution rate for GEUS was 10.8% in calendar year 2015 and 11.2% in calendar year 2014.

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

At September 30, 2015, GEUS reported a liability of \$697,082 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, 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 September 30, 2015, GEUS' proportion was 40%. There was no change in the proportion from September 30, 2014.

For the year ended September 30, 2015, GEUS recognized pension expense of \$510,500.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

At September 30, 2015, GEUS reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 4,637
Net differences between projected and actual earnings on pension plan investments	386,140
Contributions subsequent to the measurement date through year-end	<u>531,979</u>
Total	<u><u>\$ 922,756</u></u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$531,979 will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30</u>	
2016	\$ 98,070
2017	98,070
2018	98,070
2019	<u>96,567</u>
Total	<u><u>\$ 390,777</u></u>

Actuarial Assumptions

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year for GEUS
Overall payroll growth	3.0% per year for GEUS;
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation for GEUS

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

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.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. This experience study was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy postretirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. 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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.5%	4.8%
International equity	17.5%	6.1%
Core fixed income	30.0%	1.5%
Non-core fixed income	10.0%	2.5%
Real return	5.0%	1.8%
Real estate	10.0%	5.3%
Absolute return	5.0%	4.3%
Private equity	5.0%	8.5%
Total	100%	

GEUS

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September 30, 2015 and 2014

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. 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.

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

The following presents the net pension liability (asset) of GEUS calculated using the discount rate of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6%)	Current Discount Rate (7%)	1% Increase in Discount Rate (8%)
GEUS' proportionate share of the net pension liability (asset)	\$5,721,777	\$697,082	\$(3,496,986)

Pension Plan Fiduciary Net Portion

Detailed information about the pension plan's fiduciary net position is available in the separately issued TMRS final report.

Note 9: Other Postemployment Benefits

Plan Description

Prior to January 2014, the City provided postemployment medical care (OPEB) for employees through an inter-local agreement with the Texas Municipal League (TML) Intergovernmental Employee Benefits Pool (IEBP) to provide medical and dental benefits to eligible City retirees, their spouses and dependents.

In January 2014, the City began providing OPEB for employees through Health Compare's Exchange Market Place. The City reimburses eligible employees a portion of their paid premium based on years of service and dependent care status. This contribution for premium reimbursement is conducted through a third-party administrator that confirms the member has selected and paid a health care provider for the monthly premium from the Exchange Market Place.

The benefit levels and contribution rates are approved annually by the City management and the City Council as part of the budget process. Since an irrevocable trust has not been established, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

Benefits Provided

The City provides postemployment medical care benefits to its retirees. Retirees who elect COBRA cannot later elect retiree coverage. To be eligible for coverage, an employee must qualify under all three of the following criteria:

- 1) Having obtained 60 years of age with five years of service with the City or retirees of any age with 20 years of service;
- 2) Apply for pension benefits from TMRS in accordance with their requirements and deadlines, but in no event later than 90 days from termination of employment; and
- 3) Enroll for retiree health coverage within 31 days of the date of termination.

An employee must participate in Health Compare's Exchange Market Place to receive OPEB subsidies for health care. All medical care benefits are provided through a selected health care provider in the Exchange Market Place. Retirees may remain covered until age 65 or eligibility for Medicare.

As of September 30, 2015 and 2014, membership consisted of:

	2015	2014
Retirees and beneficiaries receiving benefits	15	15
Active employees	360	351
Total	<u>375</u>	<u>366</u>

Funding Policy

The City contributes a fixed dollar amount of the premium based on years of service, up to a maximum of \$250 monthly for retiree-only coverage and an additional \$250 monthly for dependent coverage, if selected.

Members participating in the Exchange Market Place medical benefits coverage receive premium subsidies in the following amounts per month for coverage in the plan:

Years of Service	Retiree Only	Retiree + Dependent(s)
0 - 14	\$ 150	\$ 300
15 - 24	200	400
25+	250	500

The City has elected to fund the OPEB liability on a pay-as-you-go basis. This basis has been recommended since 1) this provides the lowest cost approach and 2) the annual required contribution (ARC) is relatively small in comparison to the City's overall budget.

GEUS

Notes to Financial Statements

September 30, 2015 and 2014

Annual OPEB Cost

The City's annual OPEB cost is calculated based on the ARC of the City, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The City's annual OPEB cost for the current year and the prior year related information are as follows:

	September 30,		
	2015	2014	2013
Annual required contribution	\$ 202,326	\$ 237,279	\$ 230,368
Interest on prior year net OPEB obligation	21,525	13,880	7,342
Adjustment to annual required contribution	(19,943)	(12,859)	(7,342)
Annual OPEB cost	203,908	238,300	230,368
Contributions made	67,294	68,392	85,100
Increase in net OPEB obligation	136,614	169,908	145,268
Net obligation, beginning of year	478,342	308,434	163,166
Net obligation, end of year	\$ 614,956	\$ 478,342	\$ 308,434
Percentage of OPEB costs contributed	33.0%	28.7%	36.9%

Funding Status and Funding Progress

The funding status of other postemployment benefits as of December 31, 2014, the date of the latest actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 1,991,480
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$ 1,991,480
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll	\$ 17,322,992
Unfunded actuarial accrued liability as a percentage of covered payroll	11.50%

GEUS

Notes to Financial Statements

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The unfunded actuarial accrued liability is being amortized assuming a 30 year level percent of active member payroll contributions. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multilayer trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend.

In the December 31, 2014 actuarial valuation, the Projected Unit Credit, Level Percent of Payroll actuarial cost method has been used to calculate the ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to convert the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. If experience is in accordance with the assumptions used, the ARC will increase at approximately the same rate as active member payroll, and the ARC as a percentage of payroll will remain basically level on a year to year basis. The use of another actuarial cost method would produce different results.

The key actuarial assumptions of the December 31, 2014 actuarial valuation include: (a) rate of investment return of 4.50% per year, compounded annually net after investment expenses; (b) a sliding scale of salary increases for TMRS employees ranging from 5.50% to 12.00%, and an increase in salary for firefighters of 4.25%, compounded annually; (c) payroll growth rate for financing unfunded actuarial accrued liabilities assumed to be 3.00%; (d) health care increases of 3.00% and (e) the amortization period is 30 years-closed period.

Supplemental Death Benefit Fund

The City and Component Units contribute to a cost-sharing multiple-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.

GEUS

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September 30, 2015 and 2014

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 year ended September 30, 2015, 2014 and 2013 were \$14,600, \$14,497 and \$12,902, respectively, which equaled the required contributions each year.

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.

Note 10: Insurance Recoveries

On October 1, 2013, GEUS experienced a significant failure of number three boiler, causing severe damage to the unit. As a result, in fiscal year 2014, insurance proceeds of \$2,500,000 were received as compensation, which were used for reconstruction. Additional insurance recoveries of \$506,550 were received in fiscal year 2015.

GEUS
Notes to Financial Statements
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Note 11: 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.



GEUS

Schedule of GEUS' Proportionate Share of the Net Pension Liability

2015

(Unaudited)

GEUS' proportion of the net pension liability	40%
GEUS' proportionate share of the net pension liability	\$ 697,082
GEUS' covered-employee payroll	\$ 6,729,241
GEUS' proportionate share of the net pension liability as a percentage of its covered-employee payroll	10.36%
Plan fiduciary net position as a percentage of total pension liability	98.25%

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).

GEUS
Schedule of GEUS' Contributions
2015
(Unaudited)

Actuarially determined contribution	\$ 743,713
Contribution in relation to the actuarially determined contribution	<u>743,713</u>
Contribution Deficiency (Excess)	<u><u>\$ -</u></u>
GEUS' covered employee payroll	6,840,653
Contributions as a percentage of covered employee payroll	10.87%

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).

