

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

Independent Auditor's Report and Financial Statements

September 30, 2016 and 2015



GEUS
September 30, 2016 and 2015

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Independent Auditor's Report

Board of Trustees
GEUS
Greenville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of GEUS, a component unit of the City of Greenville, Texas, as of and for the years ended September 30, 2016 and 2015, 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.

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, 2016 and 2015, 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.

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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2017, 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 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' internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
March 17, 2017

GEUS

Management's Discussion and Analysis

Years Ended September 30, 2016 and 2015

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, 2016, by \$56,870,404 (net position). Of this amount, \$23,693,043 (unrestricted net position) may be used to meet GEUS' ongoing obligations to customers and creditors. Of the unrestricted net position, \$3,024,538 has been designated for debt reduction and \$100,926 has been designated for capital improvements by the GEUS Board of Trustees.

GEUS' total net position decreased by \$2,314,978 from current year operations. This decrease is mainly the result of lower fuel costs resulting in lower off system sales and pension expense of \$1,397,926.

GEUS' revenue bond liabilities decreased by \$455,000 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 and 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 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's Discussion and Analysis (Continued)

Years Ended September 30, 2016 and 2015

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,		
	2016	2015	2014
Assets			
Electric plant, net	\$ 55,777,097	\$ 57,089,319	\$ 58,064,953
Cable and internet equipment, net	7,825,422	8,278,940	8,868,056
Restricted assets	8,907,270	8,543,713	8,171,483
Prepaid electric costs	37,192,836	38,742,732	37,177,281
Current assets	24,502,840	23,139,995	18,217,219
Total assets	134,205,465	135,794,699	130,498,992
Deferred Outflows of Resources	3,659,211	922,756	-
Liabilities			
Long-term liabilities, less current maturities	74,457,129	71,503,823	68,150,292
Current liabilities payable from restricted assets	3,143,445	2,794,712	2,571,125
Current liabilities	3,393,698	3,233,538	3,461,522
Total liabilities	80,994,272	77,532,073	74,182,939
Net Position			
Net investment in capital assets	28,004,217	29,311,545	30,438,242
Restricted for revenue bond debt service	5,173,144	5,162,133	4,966,778
Unrestricted	23,693,043	24,711,704	20,911,033
Total net position	\$ 56,870,404	\$ 59,185,382	\$ 56,316,053

Net Position

Net position decreased by \$2,314,978, or 3.9%, for the year ended September 30, 2016. This decrease is mainly the result of lower fuel costs resulting in lower off system sales and the effect of GASB 68, which increased pension expense by \$687,951.

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.

GEUS

Management's Discussion and Analysis (Continued)

Years Ended September 30, 2016 and 2015

Current Assets

The \$1.36 million increase in current assets as of September 30, 2016, is mainly attributable to the absence of the TMPA escrow payment at the end of the fiscal year. In the prior year, this payment decreased pooled cash.

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.

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 \$1.7 million from \$65.3 million as of September 30, 2015, to \$63.6 million as of September 30, 2016. The decrease is related mostly to current year depreciation of assets. Asset purchases totaled \$2.1 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, 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 current year depreciation of assets. Asset purchases totaled \$2.3 million and depreciation expense of \$3.9 million was recorded.

Current Liabilities

Current liabilities increased by \$160,160 from September 30, 2015 to September 30, 2016, primarily due to an increase in accounts payable, salaries payable and accrued compensated absences payable.

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.

Long-term Liabilities

GEUS' long-term liabilities increased approximately \$3 million for the year ended September 30, 2016, primarily due to an increase in the net pension liability offset by scheduled debt payments. GEUS' underlying debt is rated "A2" and "A+" by Moody's and Standard and Poor's, respectively.

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 (GASB) Statement No. 68. GEUS' underlying debt is rated "A2" and "A+" by Moody's and Standard and Poor's, respectively.

GEUS

Management's Discussion and Analysis (Continued)

Years Ended September 30, 2016 and 2015

	For the Years Ending September 30,		
	2016	2015	2014
Revenues			
Operating revenues	\$ 59,044,109	\$ 64,189,234	\$ 65,433,708
Nonoperating revenues – other	108,132	98,887	75,756
Nonoperating revenues – insurance recoveries	-	506,550	2,500,000
Total revenues	<u>59,152,241</u>	<u>64,794,671</u>	<u>68,009,464</u>
Expenses			
Other operating expense	54,296,306	54,678,765	59,345,552
Depreciation expense	3,863,263	3,911,061	3,797,529
Nonoperating expense	<u>3,307,650</u>	<u>3,332,008</u>	<u>3,454,592</u>
Total expenses	<u>61,467,219</u>	<u>61,921,834</u>	<u>66,597,673</u>
Change in Net Position	(2,314,978)	2,872,837	1,411,791
Net Position, Beginning of Year *	<u>59,185,382</u>	<u>56,312,545</u>	<u>54,904,262</u>
Net Position, End of Year	<u>\$ 56,870,404</u>	<u>\$ 59,185,382</u>	<u>\$ 56,316,053</u>

* As restated in fiscal year 2015 due to the adoption of GASB 68

Revenues and Expenses

GEUS' operating revenues decreased approximately \$5.1 million for the year ended September 30, 2016, compared to September 30, 2015. The decrease is due to a \$1.9 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 \$2.2 million decrease in fuel adjustment revenues. There were also decreases in unbilled accrued metered sales due to generally mild weather in September. Cable and Internet (C/I) revenues were up by approximately \$60,000 primarily due to customer aid to construction for a Greenville Independent School District project.

GEUS

Management's Discussion and Analysis (Continued)

Years Ended September 30, 2016 and 2015

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.

Operating expenses decreased by \$382,459 for the year ended September 30, 2016, compared to September 30, 2015. The decrease is primarily due to reduced fuel and purchased power costs of \$2.1 million. This decrease was offset by increases in pension expense of approximately \$688,000 as well as increases in production Operations and Maintenance, legal costs associated with TMPA, administrative operations for anticipated retirements, Engineering and Operations distribution expenses and C/I programming expenses.

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.

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, 2016 and 2015

Assets

	2016	2015
Noncurrent Assets		
Property, Plant and Equipment		
Production	\$ 50,050,569	\$ 49,528,534
Transmission	10,570,941	10,484,946
Distribution	25,647,704	25,356,730
General	9,979,669	9,911,567
Construction in progress	-	368,786
Cable and internet	18,296,749	18,608,263
Property, plant and equipment	114,545,632	114,258,826
Less accumulated depreciation	50,943,113	48,890,567
Property, plant and equipment, net	63,602,519	65,368,259
Restricted Assets		
Cash and cash equivalents	8,020,493	7,556,073
Investments	886,777	987,640
Total restricted assets	8,907,270	8,543,713
Prepaid Electric Costs	37,192,836	38,742,732
Total noncurrent assets	109,702,625	112,654,704
Current Assets		
Equity in pooled cash	7,222,923	5,394,512
Investments	7,234,912	7,036,702
Accounts receivable, net of allowance for uncollectible amounts of \$659,539 and \$534,997, respectively	7,016,349	7,612,158
Other receivable	-	4,159
Prepaid expense	209,497	93,321
Inventories	2,819,159	2,999,143
Total current assets	24,502,840	23,139,995
Total assets	134,205,465	135,794,699
Deferred Outflows of Resources		
Deferred contributions – pensions	522,720	531,979
Deferred changes of assumptions – pensions	648,075	
Deferred investment losses – pensions	2,438,999	386,140
Deferred experience losses – pensions	49,417	4,637
Total deferred outflows of resources	3,659,211	922,756
Total assets and deferred outflows of resources	\$ 137,864,676	\$ 136,717,455

See Notes to Financial Statements

Net Position and Liabilities

	2016	2015
Net Position		
Net investment in capital assets	\$ 28,004,217	\$ 29,311,545
Restricted for debt service	5,173,144	5,162,133
Unrestricted	23,693,043	24,711,704
Total net position	56,870,404	59,185,382
Long-term Liabilities, Less Current Maturities		
Revenue bonds payable	69,323,000	69,798,000
Bond premium (discount), net	593,916	635,202
Accrued compensated absences	418,725	373,539
Net pension liability	4,121,488	697,082
Total long-term liabilities, less current maturities	74,457,129	71,503,823
Current Liabilities Payable from Restricted Assets		
Revenue bonds – current	475,000	455,000
Customer deposits	2,218,968	1,914,213
Accrued interest	449,477	425,499
Total current liabilities payable from restricted assets	3,143,445	2,794,712
Current Liabilities		
Accounts payable	1,496,819	1,374,402
Accrued liabilities	440,950	401,958
Due to component units of the primary government	158,139	163,841
Due to primary government	790,695	819,207
Accrued compensated absences	507,095	474,130
Total current liabilities	3,393,698	3,233,538
Total liabilities	80,994,272	77,532,073
Total net position and liabilities	\$ 137,864,676	\$ 136,717,455

GEUS

Statements of Revenues, Expenses and Changes in Net Position Years Ended September 30, 2016 and 2015

	2016	2015
Operating Revenues		
Electric	\$ 52,993,461	\$ 58,167,459
Cable and internet	6,050,648	6,021,775
Total operating revenues	59,044,109	64,189,234
Operating Expenses		
Electric	43,884,348	45,250,943
Cable and internet operations	4,832,073	4,722,986
Administrative	1,155,099	234,909
Insurance	230,415	234,816
City Services	685,369	647,480
Pilot	355,678	350,000
General fund	2,627,770	2,698,026
Board of development	525,554	539,605
Total operating expenses	54,296,306	54,678,765
Operating Income Before Depreciation	4,747,803	9,510,469
Less Depreciation	3,863,263	3,911,061
Operating Income	884,540	5,599,408
Nonoperating Revenue (Expenses)		
Investment earnings	74,877	78,011
Insurance recoveries	-	506,550
Interest expense	(3,348,935)	(3,310,403)
Bond issuance costs	-	(62,530)
Amortization	41,285	40,925
Other income (expense)	33,255	20,876
Total nonoperating revenue (expenses), net	(3,199,518)	(2,726,571)
Change in Net Position	(2,314,978)	2,872,837
Net Position, Beginning of Year	59,185,382	56,312,545
Net Position, End of Year	\$ 56,870,404	\$ 59,185,382

GEUS

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from customers and users	\$ 59,917,936	\$ 63,355,130
Cash paid to employees	(10,430,331)	(9,558,181)
Cash paid to suppliers	(41,328,079)	(44,368,831)
Net cash provided by operating activities	<u>8,159,526</u>	<u>9,428,118</u>
Investing Activities		
Purchases of investments, net	(97,347)	4,665,621
Interest on investments	74,877	78,011
Net cash provided by (used in) investing activities	<u>(22,470)</u>	<u>4,743,632</u>
Capital and Related Financing Activities		
Purchase of capital assets	(2,121,875)	(2,347,882)
Purchase of prepaid electric costs	-	(3,000,000)
Proceeds from sale of capital assets	57,607	22,447
Insurance recoveries	-	506,550
Issuance of long term debt	-	3,243,000
Principal payments	(455,000)	(435,000)
Interest and fiscal charges	(3,324,957)	(3,361,234)
Net Cash Used in Capital and Related Financing Activities	<u>(5,844,225)</u>	<u>(5,372,119)</u>
Increase in Cash and Cash Equivalents	2,292,831	8,799,631
Cash and Cash Equivalents, Beginning of Year	<u>12,950,585</u>	<u>4,150,954</u>
Cash and Cash Equivalents, End of Year	<u>\$ 15,243,416</u>	<u>\$ 12,950,585</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 884,540	\$ 5,599,408
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,863,263	3,911,061
Amortization of prepaid electric	1,549,896	1,434,549
Provision for bad debts	124,542	181,407
Change in		
Receivables	475,426	(1,207,399)
Prepaid assets	(116,176)	(8,692)
Inventory	179,984	(126,312)
Due to component units of the primary government	(5,702)	(7,293)
Due to primary government	(28,512)	(36,463)
Compensated absences	78,151	48,658
Deposits payable	304,755	191,888
Accounts payable and accrued liabilities	161,408	(323,512)
Net pension liability, net of changes in deferred resources	687,951	(229,182)
Net Cash Provided by Operating Activities	<u>\$ 8,159,526</u>	<u>\$ 9,428,118</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Equity in pooled cash	\$ 7,222,923	\$ 5,394,512
Restricted cash	<u>8,020,493</u>	<u>7,556,073</u>
Total cash and cash equivalents	<u>\$ 15,243,416</u>	<u>\$ 12,950,585</u>

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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, 2016 and 2015

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. 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 income. This deferral is included in accounts receivable.

Property, Plant and Equipment

Property, plant and equipment are stated at 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

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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:

	2016	2015
5% General fund transfer to City	\$ 2,627,770	\$ 2,698,026
1% Transfer to the City for BOD	525,554	539,605
Payment in lieu of property taxes	355,678	350,000
General and administrative	<u>685,368</u>	<u>647,480</u>
	<u><u>\$ 4,194,370</u></u>	<u><u>\$ 4,235,111</u></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".

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, 2016 and 2015

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 in the statement of net position.

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.

Note 2: Deposits and Investments

Cash and investments as of September 30, 2016 and 2015, are classified in the accompanying financial statements as follows:

	2016	2015
Statement of net position		
Equity in pooled cash	\$ 7,222,923	\$ 5,394,512
Restricted cash	8,020,493	7,556,073
Investments	7,234,912	7,036,702
Restricted investments	886,777	987,640
Total cash and investments	<u>\$ 23,365,105</u>	<u>\$ 20,974,927</u>

Deposits and investments as of September 30, 2016 and 2015, consist of the following:

	2016	2015
Cash on hand	\$ 3,159	\$ 3,159
Demand deposits	9,700,491	7,455,988
Investments	<u>13,661,455</u>	<u>13,515,780</u>
Total deposits and investments	<u>\$ 23,365,105</u>	<u>\$ 20,974,927</u>

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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' 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.

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

As of September 30, 2016, GEUS had the following investments:

Investment Type	Amount	Days to Maturity
TexPool	\$ 446,932	1
Logic	447,953	1
Texas Daily	181,166	1
Texas Term	4,463,714	1
U.S. Treasury Obligations	3,814,543	1061
U.S. Agencies Securities	<u>4,307,147</u>	846
Total	<u><u>\$ 13,661,455</u></u>	
Portfolio weighted-average maturity		329

As of September 30, 2016, GEUS did not invest in any securities which are highly sensitive to interest rate fluctuations.

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
U.S. Treasury Obligations	3,388,404	1052
U.S. Agencies Securities	<u>4,635,938</u>	804
Total	<u><u>\$ 13,515,780</u></u>	
Portfolio weighted-average maturity		417

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

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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, 2016			
Investment Type	Amount	Minimum Legal Rating	Rating as of Year-end
TexPool	\$ 446,932	N/A	AAAm
Logic	447,953	N/A	AAA
Texas Daily	181,166	N/A	AAAm
Texas Term	4,463,714	N/A	AAAf
U.S. Treasury Obligations	3,814,543	N/A	AA+
U.S. Agencies Securities	4,307,147	N/A	AA+
Total	<u>\$ 13,661,455</u>		

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
U.S. Treasury Obligations	3,388,404	N/A	AA+
U.S. Agencies Securities	4,635,938	N/A	AA+
Total	<u>\$ 13,515,780</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, 2016, other than external investment pools, investments that represent 5% or more of GEUS' total are as follows.

Investment	Investment Type	Reported Amount
U.S. Treasury Obligations	U.S. Treasury Obligations	\$ 3,814,543
FHLMC	U.S. Agency Securities	3,094,577
FNMA	U.S. Agency Securities	<u>1,212,570</u>
Total		<u>\$ 8,121,690</u>

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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, 2016, 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 operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. 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 operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. 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. 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.

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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.

Note 3: Capital Assets

A summary of GEUS' capital assets at September 30, 2016, are as follows:

	Balance September 30, 2015	Increases	Decreases	Transfers	Balance September 30, 2016
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	-	(15,716)	(353,070)	-
Total capital assets not being depreciated	912,399	-	(15,716)	(353,070)	543,613
Production	49,367,343	168,965	-	353,070	49,889,378
Transmission	10,431,445	177,253	(91,258)	-	10,517,440
Distribution	25,138,310	868,617	(577,640)	-	25,429,287
General	9,801,061	314,254	(246,149)	-	9,869,166
Cable and internet	18,608,263	592,786	(904,301)	-	18,296,748
Total assets being depreciated	113,346,422	2,121,875	(1,819,348)	353,070	114,002,019
Production	16,020,328	1,253,576	-	-	17,273,904
Transmission	5,443,237	266,790	(91,258)	-	5,618,769
Distribution	12,086,691	908,337	(577,640)	-	12,417,388
General	5,010,983	388,256	(237,513)	-	5,161,726
Cable and internet	10,329,323	1,046,304	(904,301)	-	10,471,326
Total accumulated depreciation	48,890,562	3,863,263	(1,810,712)	-	50,943,113
GEUS activities capital assets, net	\$ 65,368,259	\$ (1,741,388)	\$ (24,352)	\$ -	\$ 63,602,519

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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	543,613	368,786	-	-	912,399
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	125,001,020	1,979,096	(13,633,694)	-	113,346,422
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	58,611,624	3,911,061	(13,632,123)	-	48,890,562
GEUS activities capital assets, net	\$ 66,933,009	\$ (1,563,179)	\$ (1,571)	\$ -	\$ 65,368,259

Note 4: Long-term Debt

A summary of changes in general long-term liabilities for GEUS for the year ended September 30, 2016:

	Balance September 30, 2015	Additions	Deletions	Balance September 30, 2016	Within One Year
Bonds payable					
Revenue bonds	\$ 70,253,000	\$ -	\$ (455,000)	\$ 69,798,000	\$ 475,000
Less deferred amounts					
Issuance premiums	771,718	-	(52,806)	718,912	-
Issuance discounts	(136,516)	-	11,520	(124,996)	-
Total bonds payable	70,888,202	-	(496,286)	70,391,916	475,000
Net pension liabilities	697,082	3,424,406	-	4,121,488	-
Compensated absences	847,669	515,482	(437,331)	925,820	507,095
Total activity	\$ 72,432,953	\$ 3,939,888	\$ (933,617)	\$ 75,439,224	\$ 982,095

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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

	Balance September 30, 2014	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 GEUS' long-term debt is as follows:

	2016	2015
Electric system revenue bonds, Series 2008, \$16,615,000 originally issued with rates ranging from 4.00% to 5.45%, matures in September 2035.	\$ 14,145,000	\$ 14,600,000
.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	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	796,000
	69,798,000	70,253,000
Current maturities	(475,000)	(455,000)
Total long-term debt	<u>\$ 69,323,000</u>	<u>\$ 69,798,000</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.

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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, 2016, are as follows:

Fiscal Year	Principal	Interest	Total Principal and Interest
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	2,495,000	2,959,284	5,454,284
2022 - 2026	14,465,000	12,770,438	27,235,438
2027 - 2031	18,490,000	8,743,093	27,233,093
2032 - 2036	19,725,000	3,657,763	23,382,763
2037 - 2040	5,785,000	596,375	6,381,375
	<u>\$ 69,798,000</u>	<u>\$ 41,682,120</u>	<u>\$ 111,480,120</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, 2016 and 2015, payments to TMPA totaled \$15,858,060 and \$16,283,612, respectively. For the years ended September 30, 2016 and 2015, \$456,313 and \$542,150 of accounts payable, respectively, was due to TMPA.

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

As of September 30, 2016 and 2015, total TMPA debt outstanding was approximately \$418,760,000 and \$580,191,000, 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):

	2016	2015
Operating revenues	\$ 273,272	\$ 274,578
Operating expenses	112,506	132,171
Operating income	160,766	142,407
Interest charges	33,166	33,642
Current assets	70,927	68,335
Total assets	580,482	826,228
Long-term liabilities	383,610	651,851
Total liabilities	548,931	801,623
Total net position	32,394	34,076

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 \$525,554 and \$539,605 related to the Board of Development portion during the years ended September 30, 2016 and 2015, 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, 2016 and 2015

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, 2016 and 2015

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 866 plans in the nontraditional, joint contributory, hybrid agent multiple-employer 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* (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, 2016 and 2015

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 years ended September 30, 2016 and 2015, GEUS contributed \$761,630 and \$743,713, respectively, which equaled its required contributions.

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

At September 30, 2016 and 2015, GEUS reported a liability of \$4,121,488 and \$697,082, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 and 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 December 31, 2015 and 2014, GEUS' proportion was 40%.

For the years ended September 30, 2016 and 2015, GEUS recognized pension expense of \$1,397,926 and \$510,500, respectively.

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

At September 30, 2016 and 2015, GEUS reported deferred outflows of resources related to pensions from the following sources:

	2016	2015
	Deferred Outflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 49,417	\$ 4,637
Changes of assumptions	648,075	-
Net differences between projected and actual investment earnings	2,438,999	386,140
Contributions subsequent to the measurement date through year-end	<u>522,720</u>	<u>531,979</u>
Total	<u><u>\$ 3,659,211</u></u>	<u><u>\$ 922,756</u></u>

Deferred outflows of resources at September 30, 2016, related to pensions resulting from contributions subsequent to the measurement date of \$522,720 will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. 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>	
2017	\$ 877,366
2018	877,366
2019	844,410
2020	<u>537,349</u>
Total	<u><u>\$ 3,136,491</u></u>

Actuarial Assumptions

The total pension liability in the December 31, 2015 and 2014, actuarial valuations was determined using the following actuarial assumptions:

Inflation	2.50% and 3.00% per year, respectively
Overall payroll growth	3.00% per year in both years
Investment Rate of Return	6.75% and 7.00%, respectively, net of pension plan investment expense; including inflation

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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, 2015, valuation were based on the results of actuarial experience studies. This experience study was for the period January 1, 2010, through December 31, 2014. 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. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75% for the actuarial valuation. 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.

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 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.

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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%	4.55%
International equity	17.5%	6.10%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	3.65%
Real return	10.0%	4.03%
Real estate	10.0%	5.00%
Absolute return	10.0%	4.00%
Private equity	5.0%	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 6.75% (7.0% in prior year). 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 proportionate share of the net pension liability (asset) of GEUS as of September 30, 2016, 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)	\$9,446,713	\$4,121,488	\$(319,282)

Pension Plan Fiduciary Net Position

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

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

Note 9: Other Postemployment Benefits

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.

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, 2016, 2015 and 2014, were \$15,813, \$14,600, and \$14,497, 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: 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.

GEUS

Notes to Financial Statements

September 30, 2016 and 2015

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, 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Federal agency securities	\$ 4,307,147	\$ -	\$ 4,307,147	\$ -
U.S. Treasury obligations	3,814,543	-	3,814,543	-
Total investments by fair value level	8,121,690	\$ -	\$ 8,121,690	\$ -
Investments measured at net asset value				
LOGIC	447,953			
TexasDAILY	181,166			
Texas TERM	4,463,714			
	5,092,833			
Investment measured at amortized cost	446,932			
Total investments	\$ 13,661,455			

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.

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, 2016, no investments held by GEUS met the Level 3 hierarchy classification.

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

Last Two Fiscal Years

(Unaudited)

	<u>Measurement Year</u> <u>2014</u>	<u>Measurement Year</u> <u>2015</u>
GEUS' proportion of the net pension liability	40%	40%
GEUS' proportionate share of the net pension liability	\$ 697,082	\$ 4,121,488
GEUS' covered-employee payroll	\$ 6,729,241	\$ 6,875,419
GEUS' proportionate share of the net pension liability as a percentage of its covered-employee payroll	10.36%	59.95%
Plan fiduciary net position as a percentage of total pension liability	98.25%	90.25%

Other Information: The discount rate changed from 7.00% to 6.75% for the 2015 valuation; there were no other changes in assumptions.

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
Last Two Fiscal Years
(Unaudited)

	Fiscal Year 2015	Fiscal Year 2016
Actuarially determined contribution	\$ 743,713	\$ 761,630
Contribution in relation to the actuarially determined contribution	<u>743,713</u>	<u>761,630</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
GEUS' covered employee payroll	\$ 6,840,653	\$ 7,187,526
Contributions as a percentage of covered employee payroll	10.87%	10.60%

Notes to Schedule:

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	30 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).

