

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

Independent Auditor's Report and Financial Statements

September 30, 2017 and 2016



**GEUS**  
**September 30, 2017 and 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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 21, 2018, on our consideration of GEUS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of GEUS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering GEUS' internal control over financial reporting and compliance.

**BKD, LLP**

Dallas, Texas  
March 21, 2018

# **GEUS**

## **Management's Discussion and Analysis**

### **Years Ended September 30, 2017 and 2016**

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

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

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

#### ***Financial Highlights***

The assets and deferred outflows of resources of GEUS exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended September 30, 2017, by \$18,649,501 (net position). Of this amount, there is a negative unrestricted net position of \$13,317,583 due to the impairment of prepaid electric costs. These prepaid electric costs were incurred during FY 2010 and again in FY 2015 when TMPA's member cities issued debt on TMPA's behalf for debt refunding and the upgrade of assets, both related to electric generations. The future energy expected from TMPA as a result of these payments were recorded as an asset, prepaid electric costs, and were being amortized over the anticipated life of the TMPA assets. In September 2016, TMPA and its member cities were notified by the City of Greenville of their intention to opt out of the TMPA Power Sales Contract and discontinue receiving energy as of September 1, 2018. After September 1, 2018 there would not be any benefits associated with the prepaid electric costs and required a write down for the impairment of the assets. As of September 30, 2017, the value of the prepaid assets were reduced to \$1,549,895 in line with the remaining energy expected in 2018. The balance of the prepaid electric costs will be fully amortized in the following year and have a \$0 balance as of September 30, 2018.

GEUS' total net position decreased by \$38,220,903 from current year operations. This decrease is mainly the result of the impairment of prepaid electric costs as discussed above.

GEUS' revenue bond liabilities decreased by \$475,000 during the current fiscal year, due to scheduled principal payments.

#### ***Overview of the Financial Statements***

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

#### ***Required Financial Statements***

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

# GEUS

## Management's Discussion and Analysis (Continued)

### Years Ended September 30, 2017 and 2016

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

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

	<b>September 30,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
Electric plant, net	\$ 54,517,065	\$ 55,777,097	\$ 57,089,319
Cable and Internet equipment, net	7,116,782	7,825,422	8,278,940
Restricted assets	9,235,065	8,907,270	8,543,713
Prepaid electric costs	1,549,895	37,192,836	38,742,732
Current assets	24,695,668	24,502,840	23,139,995
Total assets	97,114,475	134,205,465	135,794,699
<b>Deferred Outflows of Resources</b>	2,829,094	3,659,211	922,756
<b>Liabilities</b>			
Long-term liabilities, less current maturities	73,774,027	74,457,129	71,503,823
Current liabilities payable from restricted assets	3,391,926	3,143,445	2,794,712
Current liabilities	3,917,971	3,393,698	3,233,538
Total liabilities	81,083,924	80,994,272	77,532,073
<b>Deferred Inflows of Resources</b>	210,144	-	-
<b>Net Position</b>			
Net investment in capital assets	26,814,332	28,004,217	29,311,545
Restricted for revenue bond debt service	5,152,752	5,173,144	5,162,133
Unrestricted	(13,317,583)	23,693,043	24,711,704
Total net position	\$ 18,649,501	\$ 56,870,404	\$ 59,185,382

#### **Net Position**

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



# **GEUS**

## **Management's Discussion and Analysis (Continued)**

### **Years Ended September 30, 2017 and 2016**

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.

#### ***Current Assets***

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

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.

#### ***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 \$2.0 million from \$63.6 million as of September 30, 2016, to \$61.6 million as of September 30, 2017. The decrease is related mostly to current year depreciation of assets. Asset purchases totaled \$1.9 million and depreciation expense of \$4.0 million was recorded.

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.

#### ***Current Liabilities***

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

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.

#### ***Long-term Liabilities***

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

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

## Management's Discussion and Analysis (Continued)

### Years Ended September 30, 2017 and 2016

	For the Years Ending September 30,		
	2017	2016	2015
<b>Revenues</b>			
Operating revenues	\$ 62,371,543	\$ 59,044,109	\$ 64,189,234
Nonoperating revenues – other	29,683	108,132	98,887
Nonoperating revenues – insurance recoveries	-	-	506,550
Total revenues	<u>62,401,226</u>	<u>59,152,241</u>	<u>64,794,671</u>
<b>Expenses</b>			
Other operating expense	59,329,705	54,296,306	54,678,765
Depreciation expense	3,977,782	3,863,263	3,911,061
Nonoperating expense	<u>3,221,596</u>	<u>3,307,650</u>	<u>3,332,008</u>
Total expenses	66,529,083	61,467,219	61,921,834
<b>Impairment of Prepaid Electric Costs</b>	<u>(34,093,046)</u>	<u>-</u>	<u>-</u>
<b>Change in Net Position</b>	(38,220,903)	(2,314,978)	2,872,837
<b>Net Position, Beginning of Year</b>	<u>56,870,404</u>	<u>59,185,382</u>	<u>56,312,545</u>
<b>Net Position, End of Year</b>	<u>\$ 18,649,501</u>	<u>\$ 56,870,404</u>	<u>\$ 59,185,382</u>

### ***Revenues and Expenses***

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

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.

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

# **GEUS**

## **Management's Discussion and Analysis (Continued)**

### **Years Ended September 30, 2017 and 2016**

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.

#### ***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, 2017 and 2016

#### Assets

	2017	2016
<b>Noncurrent Assets</b>		
<b>Property, Plant and Equipment</b>		
Production	\$ 49,976,065	\$ 50,050,569
Transmission	10,634,474	10,570,941
Distribution	26,192,651	25,647,704
General	10,032,125	9,979,669
Construction in progress	72,260	-
Cable and internet	18,113,177	18,296,749
	<hr/>	<hr/>
Property, plant and equipment	115,020,752	114,545,632
Less accumulated depreciation	53,386,905	50,943,113
	<hr/>	<hr/>
Property, plant and equipment, net	61,633,847	63,602,519
	<hr/>	<hr/>
<b>Restricted Assets</b>		
Cash and cash equivalents	8,346,887	8,020,493
Investments	888,178	886,777
	<hr/>	<hr/>
Total restricted assets	9,235,065	8,907,270
	<hr/>	<hr/>
<b>Prepaid Electric Costs</b>	1,549,895	37,192,836
	<hr/>	<hr/>
Total noncurrent assets	72,418,807	109,702,625
	<hr/>	<hr/>
<b>Current Assets</b>		
Equity in pooled cash	6,471,062	7,222,923
Investments	6,679,417	7,234,912
Accounts receivable, net of allowance for uncollectible amounts of \$554,203 and \$659,539, respectively	8,172,823	7,016,349
Prepaid expense	160,977	209,497
Inventories	3,211,389	2,819,159
	<hr/>	<hr/>
Total current assets	24,695,668	24,502,840
	<hr/>	<hr/>
Total assets	97,114,475	134,205,465
	<hr/>	<hr/>
<b>Deferred Outflows of Resources</b>		
Deferred contributions – pensions	571,901	522,720
Deferred changes of assumptions – pensions	422,265	648,075
Deferred investment losses – pensions	1,803,185	2,438,999
Deferred experience losses – pensions	31,743	49,417
	<hr/>	<hr/>
Total deferred outflows of resources	2,829,094	3,659,211
	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 99,943,569	\$ 137,864,676
	<hr/>	<hr/>

# GEUS

## Statements of Net Position (Continued)

### September 30, 2017 and 2016

#### Net Position and Liabilities

	2017	2016
<b>Net Position</b>		
Net investment in capital assets	\$ 26,814,332	\$ 28,004,217
Restricted for debt service	5,152,752	5,173,144
Unrestricted	(13,317,583)	23,693,043
Total net position	18,649,501	56,870,404
<b>Long-term Liabilities, Less Current Maturities</b>		
Revenue bonds payable	68,833,000	69,323,000
Bond premium (discount), net	552,255	593,916
Accrued compensated absences	469,631	418,725
Net pension liability	3,919,141	4,121,488
Total long-term liabilities, less current maturities	73,774,027	74,457,129
<b>Current Liabilities Payable from Restricted Assets</b>		
Revenue bonds – current	490,000	475,000
Customer deposits	2,484,691	2,218,968
Accrued interest	417,235	449,477
Total current liabilities payable from restricted assets	3,391,926	3,143,445
<b>Current Liabilities</b>		
Accounts payable	2,045,920	1,496,819
Accrued liabilities	421,771	440,950
Due to component units of the primary government	150,261	158,139
Due to primary government	751,304	790,695
Accrued compensated absences	548,715	507,095
Total current liabilities	3,917,971	3,393,698
Total liabilities	81,083,924	80,994,272
<b>Deferred Inflows of Resources</b>		
Deferred experience gains – pensions	210,144	-
Total deferred inflows of resources	210,144	-
Total liabilities, deferred inflows of resources and net position	\$ 99,943,569	\$ 137,864,676

# GEUS

## Statements of Revenues, Expenses and Changes in Net Position Years Ended September 30, 2017 and 2016

	2017	2016
<b>Operating Revenues</b>		
Electric	\$ 56,332,151	\$ 52,993,461
Cable and internet	6,039,392	6,050,648
Total operating revenues	62,371,543	59,044,109
<b>Operating Expenses</b>		
Electric	48,954,429	43,884,348
Cable and Internet operations	4,983,896	4,832,073
Administrative	1,174,141	1,155,099
Insurance	229,442	230,415
City Services	695,621	685,369
Pilot	356,100	355,678
General fund	2,446,730	2,627,770
Board of development	489,346	525,554
Total operating expenses	59,329,705	54,296,306
<b>Operating Income Before Depreciation</b>	3,041,838	4,747,803
<b>Less Depreciation</b>	3,977,782	3,863,263
<b>Operating Income (Loss)</b>	(935,944)	884,540
<b>Nonoperating Revenue (Expenses)</b>		
Investment earnings	29,683	74,877
Interest expense	(3,263,258)	(3,348,935)
Amortization	41,662	41,285
Other income (expense)	-	33,255
Total nonoperating revenue (expenses), net	(3,191,913)	(3,199,518)
<b>Impairment of Prepaid Electric Costs</b>	(34,093,046)	-
<b>Change in Net Position</b>	(38,220,903)	(2,314,978)
<b>Net Position, Beginning of Year</b>	56,870,404	59,185,382
<b>Net Position, End of Year</b>	\$ 18,649,501	\$ 56,870,404

# GEUS

## Statements of Cash Flows

### Years Ended September 31, 2017 and 2016

	2017	2016
<b>Operating Activities</b>		
Receipts from customers and users	\$ 61,881,600	\$ 59,917,936
Cash paid to employees	(11,086,479)	(10,430,331)
Cash paid to suppliers	(46,024,755)	(41,328,079)
Net cash provided by operating activities	<u>4,770,366</u>	<u>8,159,526</u>
<b>Investing Activities</b>		
Purchases of investments, net	554,094	(97,347)
Interest on investments	29,683	74,877
Net cash provided by (used in) investing activities	<u>583,777</u>	<u>(22,470)</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(2,027,467)	(2,121,875)
Proceeds from sale of capital assets	18,357	57,607
Principal payments	(475,000)	(455,000)
Interest and fiscal charges	(3,295,500)	(3,324,957)
Net cash used in capital and related financing activities	<u>(5,779,610)</u>	<u>(5,844,225)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(425,467)	2,292,831
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>15,243,416</u>	<u>12,950,585</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 14,817,949</u></u>	<u><u>\$ 15,243,416</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (935,944)	\$ 884,540
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,977,782	3,863,263
Amortization of prepaid electric costs	1,549,897	1,549,896
Provision for bad debts	124,542	124,542
Change in		
Receivables	(1,281,016)	475,426
Prepaid assets	48,520	(116,176)
Inventory	(392,230)	179,984
Due to component units of the primary government	(7,878)	(5,702)
Due to primary government	(39,391)	(28,512)
Compensated absences	92,526	78,151
Deposits payable	265,723	304,755
Accounts payable and accrued liabilities	529,921	161,408
Net pension liability, net of changes in deferred resources	837,914	687,951
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 4,770,366</u></u>	<u><u>\$ 8,159,526</u></u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>		
Equity in pooled cash	\$ 6,471,062	\$ 7,222,923
Restricted cash	<u>8,346,887</u>	<u>8,020,493</u>
<b>Total cash and cash equivalents</b>	<u><u>\$ 14,817,949</u></u>	<u><u>\$ 15,243,416</u></u>



# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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

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

##### ***Reporting Entity***

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

##### ***Use of Estimates***

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

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

#### ***Measurement Focus, Basis of Accounting and Basis of Presentation***

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

#### ***Accounting and Financial Reporting***

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

#### ***Unbilled Revenues and Fuel Recovery***

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

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

#### ***Property, Plant and Equipment***

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

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

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

#### ***Services Provided by the City of Greenville***

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

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

	<u>2017</u>	<u>2016</u>
5% General fund transfer to City	\$ 2,446,730	\$ 2,627,770
1% Transfer to the City for BOD	489,346	525,554
Payment in lieu of property taxes	356,100	355,678
General and administrative	<u>695,621</u>	<u>685,369</u>
	<u>\$ 3,987,797</u>	<u>\$ 4,194,371</u>

#### ***Cash and Cash Equivalents***

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

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

#### ***Inventories***

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

#### ***Bond Discounts (Premium)***

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

#### ***Prepaid Electric Costs***

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

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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

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

#### ***Deferred Outflows of Resources***

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

#### ***Deferred Inflows of Resources***

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

#### ***Pensions***

For purposes of measuring the net pension liability, deferred outflow/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

#### Note 2: Deposits and Investments

Cash and investments as of September 30, 2017 and 2016, are classified in the accompanying financial statements as follows:

	2017	2016
Statement of net position		
Equity in pooled cash	\$ 6,471,062	\$ 7,222,923
Restricted cash	8,346,887	8,020,493
Investments	6,679,417	7,234,912
Restricted investments	888,178	886,777
	<u>22,385,544</u>	<u>23,365,105</u>
Total cash and investments	<u>\$ 22,385,544</u>	<u>\$ 23,365,105</u>

Deposits and investments as of September 30, 2017 and 2016, consist of the following:

	2017	2016
Cash on hand	\$ 3,159	\$ 3,159
Demand deposits	9,250,350	9,700,491
Investments	13,132,035	13,661,455
	<u>22,385,544</u>	<u>23,365,105</u>
Total deposits and investments	<u>\$ 22,385,544</u>	<u>\$ 23,365,105</u>

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

Authorized Investment Type	Investment Policy		
	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury 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, 2017 and 2016

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, 2017, GEUS had the following investments:

Investment Type	Amount	Days to Maturity
TexPool	\$ 438,099	1
Logic	440,034	1
Texas Daily	182,395	1
Texas Term	4,503,909	1
U.S. Treasury Obligations	2,556,857	1,092
U.S. Agencies Securities	4,493,396	1,026
Commercial Paper	<u>517,345</u>	269
 Total	 <u><u>\$ 13,132,035</u></u>	
 Portfolio weighted-average maturity		 340

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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	4,307,147	846
Total	<u>\$ 13,661,455</u>	

Portfolio weighted-average maturity 329

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

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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>		

#### **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, 2017, other than external investment pools, investments that represent 5% or more of GEUS' total are as follows.

Investment	Investment Type	Amount
U.S. Treasury Obligations	U.S. Treasury Obligations	\$ 2,556,857
FHLMC	U.S. Agency Securities	882,740
FNMA	U.S. Agency Securities	<u>2,963,614</u>
Total		<u>\$ 6,403,211</u>

#### **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.



# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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

As of September 30, 2017, 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.

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.

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

#### Note 3: Capital Assets

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

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

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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

	Balance September 30, 2015	Increases	Decreases	Transfers	Balance September 30, 2016
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
Total activities capital assets, net	\$ 65,368,259	\$ (1,741,388)	\$ (24,352)	\$ -	\$ 63,602,519

## Note 4: Long-term Liabilities

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

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

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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					
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	<u>\$ 72,432,953</u>	<u>\$ 3,939,888</u>	<u>\$ (933,617)</u>	<u>\$ 75,439,224</u>	<u>\$ 982,095</u>

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

	2017	2016
Electric system revenue bonds, Series 2008, \$16,615,000 originally issued with rates ranging from 4.00% to 5.45%, matures in September 2035.	\$ 13,670,000	\$ 14,145,000
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
	69,323,000	69,798,000
Current maturities	(490,000)	(475,000)
Total long-term debt	<u>\$ 68,833,000</u>	<u>\$ 69,323,000</u>

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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, 2017, are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Principal and Interest</b>
2018	\$ 490,000	\$ 3,317,879	\$ 3,807,879
2019	5,503,000	3,221,922	8,724,922
2020	2,370,000	3,078,187	5,448,187
2021	2,495,000	2,959,284	5,454,284
2022	2,615,000	2,833,315	5,448,315
2023 – 2027	15,200,000	12,033,544	27,233,544
2028 – 2032	19,410,000	7,824,691	27,234,691
2033 – 2037	16,795,000	2,735,494	19,530,494
2038 – 2040	4,445,000	340,625	4,785,625
	<u>\$ 69,323,000</u>	<u>\$ 38,344,941</u>	<u>\$ 107,667,941</u>

## **Note 5: Commitments and Contingencies**

### ***Agreement with TMPA***

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

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.

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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

For the years ended September 30, 2017 and 2016, payments to TMPA totaled \$19,522,941 and \$15,858,060, respectively. As of September 30, 2017 and 2016, \$427,553 and \$456,313 of accounts payable, respectively, was due to TMPA.

As of September 30, 2017 and 2016, total TMPA debt outstanding was approximately \$301,629,000 and \$418,760,000, 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):

	2017	2016
Operating revenues	\$ 277,155	\$ 273,272
Operating expenses	121,245	112,506
Operating income	155,910	160,766
Interest charges	11,188	33,166
Current assets	53,839	70,927
Total assets	406,692	580,482
Long-term liabilities	221,794	383,610
Total liabilities	362,208	548,931
Total net position	44,887	32,394

#### ***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 \$489,346 and \$525,554 related to the Board of Development portion during the years ended September 30, 2017 and 2016, respectively.

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

#### Note 6: Environmental Regulation

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

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

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

On September 7, 2016, the EPA finalized an update to the Cross-State Air Pollution Rule (CSAPR) for the 2008 ozone National Ambient Air Quality Standards (NAAQS) by issuing the final CSAPR Update. Starting in May 2017, this rule will reduce summertime (May - September) nitrogen oxides (NO<sub>x</sub>) emissions from power plants in 22 states in the eastern U.S. The rule will reduce air quality impacts of ozone pollution that crosses state lines and will help downwind areas meet and maintain the 2008 ozone air quality standard. GEUS is compliant with the new CSAPR cap and trade.

#### Note 7: Electric Restructuring

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

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

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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

#### **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](http://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.

##### **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.



# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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 2017 and 2016. Employer contributions are actuarially determined. For the fiscal years ended September 30, 2017 and 2016, GEUS contributed \$775,827 and \$761,630, respectively, which equaled its required contributions.

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

At September 30, 2017 and 2016, GEUS reported a liability of \$3,919,141 and \$4,121,488, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, 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, 2016 and 2015, GEUS' proportion was 40%.

For the years ended September 30, 2017 and 2016, GEUS recognized pension expense of \$1,598,544 and \$1,397,926, respectively.

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

At September 30, 2017 and 2016, GEUS reported deferred outflow/inflows of resources related to pensions from the following sources:

	<b>2017</b>		<b>2016</b>
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>
Differences between expected and actual experience	\$ 31,743	\$ (210,144)	\$ 49,417
Changes of assumptions	422,265	-	648,075
Net differences between projected and actual investment earnings	1,803,185	-	2,438,999
Contributions subsequent to the measurement date through year-end	<u>571,901</u>	<u>-</u>	<u>522,720</u>
Total	<u>\$ 2,829,094</u>	<u>\$ (210,144)</u>	<u>\$ 3,659,211</u>

Deferred outflows of resources at September 30, 2017, related to pensions resulting from contributions subsequent to the measurement date of \$571,901 will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u><b>Year Ending September 30,</b></u>	
2018	\$ 799,053
2019	766,094
2020	482,384
2021	<u>(482)</u>
Total	<u>\$ 2,047,049</u>

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

#### Actuarial Assumptions

The total pension liability in the December 31, 2016 and 2015, actuarial valuations was determined using the following actuarial assumptions:

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

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, 2016, valuation were based on the results of actuarial experience studies. This experience study was for the period December 31, 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. No changes were made for the 2016 valuation.

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 December 31, 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 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 is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

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%	4.55%
International equity	17.5%	6.35%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	4.15%
Real return	10.0%	4.15%
Real estate	10.0%	4.75%
Absolute return	10.0%	4.00%
Private equity	5.0%	7.75%
Total	100.0%	

#### Discount Rate

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

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

#### **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, 2017, 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:

	<b>1% Decrease in Discount Rate (5.75%)</b>	<b>Current Discount Rate (6.75%)</b>	<b>1% Decrease in Discount Rate (5.75%)</b>
GEUS' proportionate share of the net pension liability (asset)	\$9,405,190	\$3,919,141	\$657,358

#### ***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued TMRS final report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

#### **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.

# GEUS

## Notes to Financial Statements

### September 30, 2017 and 2016

The funding policy of the plan is to assure adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you go basis; any excess contributions and investment income over payments then become net position available for postemployment benefits other than pension benefits (OPEB). GEUS' contributions to SDBF for the fiscal years ended September 30, 2017, 2016 and 2015, were \$17,283, \$15,813 and \$14,600, 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, 2017 and 2016

#### ***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, 2017:

	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	\$ 4,493,396	\$ -	\$ 4,493,396	\$ -
U.S. Treasury obligations	2,556,857	-	2,556,857	-
Commercial Paper	517,345		517,345	
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments by fair value level	7,567,598	\$ -	\$ 7,567,598	\$ -
	<hr/>	<hr/>	<hr/>	<hr/>
Investments measured at net asset value				
LOGIC	440,034			
TexasDAILY	182,395			
Texas TERM	4,503,909			
	<hr/>			
	5,126,338			
	<hr/>			
Investment measured at amortized cost	438,099			
	<hr/>			
Total investments	\$ 13,132,035			
	<hr/>			

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, 2017, no investments held by GEUS met the Level 3 hierarchy classification.

**GEUS**  
**Notes to Financial Statements**  
**September 30, 2017 and 2016**

**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. In the opinion of the GEUS legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of GEUS.



**GEUS**  
**Texas Municipal Retirement System**  
**Schedule of GEUS' Proportionate Share of the Net Pension Liability**  
**Last Two Fiscal Years**  
**(Unaudited)**

	<b>Measurement Year 2015</b>	<b>Measurement Year 2016</b>
GEUS' proportion of the net pension liability	40%	40%
GEUS' proportionate share of the net pension liability	\$ 4,121,488	\$ 3,919,141
GEUS' covered-employee payroll	\$ 6,875,419	\$ 6,907,272
GEUS' proportionate share of the net pension liability as a percentage of its covered-employee payroll	59.95%	56.74%
Plan fiduciary net position as a percentage of total pension liability	90.25%	91.06%

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**  
**Texas Municipal Retirement System**  
**Schedule of GEUS' Contributions**  
**Last Two Fiscal Years**  
**(Unaudited)**

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

**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	29 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.

**GEUS**  
**Texas Municipal Retirement System**  
**Schedule of GEUS' Contributions (Continued)**  
**Last Two Fiscal Years**  
**(Unaudited)**

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).