GEUS
(A component unit of the City of Greenville)

Auditor's Report and Financial Statements

September 30, 2013

BKD LLP
CPAs & Advisors

GEUS

Energizing the Community

GEUS
September 30, 2013 and 2012

Contents

GEUS

Energizing the Community

BKD LLP
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Independent Auditor's Report on Financial Statements

Board of Trustees
GEUS
Greenville, Texas

Report on the Financial Statements

We have audited the accompanying basic financial statements of GEUS, a component unit of the City of Greenville, which are comprised of a statement of net position as of September 30, 2013, and a statement of revenues, expenses and changes in net position and statement of cash flows and the related notes to the basic financial statements for the year ended September 30, 2013, as listed in the table of contents.

Prior Year Audited by Other Auditors

The September 30, 2012 financial statements were audited by other auditors and their report thereon, dated April 18, 2013, expressed an unmodified opinion.

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 audit. We conducted our audit 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, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in the current year, GEUS adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying information in the supplemental schedules section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2014, on our consideration of GEUS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GEUS's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
April 16, 2014

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

The objective of this discussion and analysis is to provide the reader information relevant to assess the financial condition and the results of operations of GEUS as determined by 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 of GEUS exceeded its liabilities at the close of the fiscal year ended September 30, 2013, by $54,904,262 (net position). Of this amount, $23,574,185 (unrestricted net position) may be used to meet GEUS' ongoing obligations to customers and creditors.

GEUS' total net position decreased by $1,370,411. This decrease is mainly the result of implementation of Governmental Accounting Standards Board Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*.

GEUS' revenue bond liabilities decreased by $405,000 during the current fiscal year.

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 liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of GEUS and assessing the liquidity and financial flexibility of GEUS.

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

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

GEUS' Condensed Statement of Net Position

	September 30, 2013	2012	2011
Assets			
Electric plant, net	$ 57,272,578	$ 58,211,016	$ 59,503,027
Cable and internet equipment, net	9,362,916	9,591,244	9,263,745
Restricted assets	11,336,687	10,404,636	15,612,039
Prepaid electricity	36,011,023	32,780,419	28,629,631
Current assets	16,645,763	20,306,481	22,111,608
Total assets	130,628,967	131,293,796	135,120,050
Liabilities			
Long-term debt, less current maturities	68,671,903	69,149,391	74,560,692
Payable from restricted assets	2,479,960	2,580,814	3,222,603
Current liabilities	4,572,842	3,288,918	3,795,805
Total liabilities	75,724,705	75,019,123	81,579,100
Net Position*			
Net investment in capital assets	29,718,020	30,475,340	25,388,821
Restricted for revenue bond debt service	1,612,057	987,483	947,750
Unreserved	23,574,185	24,811,850	27,204,379
Total net position	$ 54,904,262	$ 56,274,673	$ 53,540,950

* The cumulative effect of applying GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, resulted in 2013 beginning net position being adjusted. Fiscal year 2012 net position was not adjusted.

Net Position

Net position decreased by $1,370,411 or 2.4% for the year ended September 30, 2013. The decrease is primarily due to implementation of GASB 65, which decreased net position by $921,580.

Net position increased by $2,733,723 or 5.1% for the year ended September 30, 2012. GEUS retail electric rates implemented on October 1, 2010 were designed to over collect in first years.

Current Assets

The $3.5 million decrease in current assets as of September 30, 2013 is mainly attributable to the use of cash to prepay electric costs.

The $1.8 million decrease in current assets as of September 30, 2012 is mainly attributable to the use of cash to defease the 2001 bonds.

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 $1,200,000 from $67.8 million as of September 30, 2012 to $66.6 million as of September 30, 2013. The decrease is related mostly to routine retirements and depreciation. The electric assets went up from $103 million to $105 million while associated depreciation went up from $45.1 million to $47.3 million. The cable and Internet assets went from $17.5 million to $18.2 million while associated depreciation went from $7.9 million to $8.9 million.

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 $1,000,000 from $68.8 million as of September 30, 2011 to $67.8 million as of September 30, 2012. The decrease is related mostly to routine retirements and depreciation. The electric assets went up from $102 million to $103 million while associated depreciation went up from $42.4 million to $45.1 million. The cable and Internet assets went from $16.5 million to $17.5 million while associated depreciation went from $7.3 million to $7.9 million.

Future capital expenditures are expected to range from a high of $2.8 million in 2013 to a low of $1.6 million projected in 2016.

Current Liabilities

Current liabilities increased by $1,283,924 from September 30, 2012 to September 30, 2013 primarily due to a $1,242,167 increase in accounts payable.

Current liabilities decreased by $506,887 from September 30, 2011 to September 30, 2012 primarily due to a $1,305,000 decrease in accounts payable offset by a $161,000 increase in accrued liabilities and a $705,000 liability to the City.

Long-term Debt

GEUS' long-term debt decreased approximately $477,000 for the year ended September 30, 2013. The decrease was due to principal payments made in 2013. GEUS' underlying debt is rated "A2" and "A+" by Moody's and Standard and Poor's, respectively.

GEUS' long-term debt decreased approximately $6.24 million for the year ended September 30, 2012. The decrease was due to defeasing the 2001 bonds and due to principal payments made in 2012.

	For the Years Ending September 30,		
	2013	2012	2011
		(Not Restated)	
Revenues			
Operating revenues	$ 59,816,322	$ 54,799,423	$ 74,124,580
Nonoperating revenues	81,661	75,101	132,334
Total revenues	59,897,983	54,874,524	74,256,914
Expenses			
Depreciation expense	3,811,878	3,529,617	3,499,636
Other operating expense	53,225,237	44,900,655	57,573,562
Nonoperating expense	3,309,699	3,710,529	3,645,605
Total expenses	60,346,814	52,140,801	64,718,803
Change in Net Position	(448,831)	2,733,723	9,538,111
Net Position, As Previously Reported	56,274,673	53,540,950	44,002,839
Change in Accounting Principle	(921,580)	-	-
Net Position, Beginning of Year	55,353,093	53,540,950	44,002,839
Net Position, End of Year	$ 54,904,262	$ 56,274,673	$ 53,540,950

Operating Revenues and Operating Expenses

GEUS' charges for services increased approximately $5.0 million for the year ended September 30, 2013 compared to September 30, 2012. The increase is due to a $2.8 million increase in the fuel portion of the retail sales, the majority of which was collected in the prior year and recognized in 2013 through the fuel recovery process. Off-system sales increased by $1.7 million largely due to the way the Nodal market works and offset by increased costs of power. These sales are tied to how much TMPA's Gibbons Creek plant runs and it ran more than in 2012. Cable and internet (C/I) revenues were up by approximately $96,000 primarily due to growth in Internet sales.

GEUS' charges for services decreased approximately $19.3 million for the year ended September 30, 2012 compared to September 30, 2011. The decrease is due to a $1.5 million decrease in the base portion of the retail sales, a $5.5 million decrease in the fuel portion and a $251,000 decrease in transfer revenues. Sales were lower with more moderate temperatures than in 2011 and fuel costs were down. Off-system sales decreased by $12.1 million largely due to the way the Nodal market works and offset by decreased costs of power. These sales are now tied to how much TMPA's Gibbons Creek plant runs and it ran considerably less in 2012 due to the low cost of natural gas. C/I revenues were up by $203,000 primarily due to growth in Internet sales.

Operating expenses increased by $8.3 million for the year ended September 30, 2013 compared to September 30, 2012. The increase is primarily due to an increase in fuel and purchased power costs of $6.7 million. The demand portion increased by $1.8 million and the fuel/energy increased $4.9 million. There was a major turbine overhaul of all three units at the steam plant which led to a $2 million increase in production O&M costs as well as higher programming and Internet costs of over $210,000 in C/I. Nonoperating expenses are up slightly due to the amortization expense associated with the defeased debt.

Operating expenses decreased by $12.7 million for the year ended September 30, 2012 compared to September 30, 2011. The decrease is primarily due to a decrease in fuel costs of $13.8 million as mentioned above. There was an increased cost of maintenance of the plants, increased transmission cost of service (TCOS) expenses and higher programming and Internet costs. Transfers to the City and Board of Development were down due to the decreased sales dollars. Nonoperating expenses are up slightly due to the amortization expense associated with the defeased debt.

Change in Net Position

The change in net position during the year ended September 30, 2013, was a decrease of $1,370,411. This was mainly due to implementation of GASB 65. As stated in *Note 1*: New Pronouncements, GEUS no longer has to record debt issuance cost as a deferred debt expense, which is capitalized and amortized over the life of the debt. As a result, a prior period adjustment was made to remove bond issuance costs of $921,580, resulting in a change in beginning net position.

The change in net position during the year ended September 30, 2012, was an increase of $2,733,723. This was due to the retail electric rate structure that was designed to over collect in first few years of rate implementation. This was year two.

GEUS

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GEUS

Statements of Net Position

September 30, 2013 and 2012

Assets

	2013	2012
Property, Plant and Equipment		
Production	$ 55,539,097	$ 54,808,938
Transmission	12,788,482	12,667,020
Distribution	26,312,281	26,001,844
General	9,939,779	9,804,520
Cable and internet equipment	18,215,417	17,481,818
Property, plant and equipment	122,795,056	120,764,140
Less accumulated depreciation	56,159,562	52,961,880
Property, plant and equipment, net	66,635,494	67,802,260
Restricted Assets		
Cash and cash equivalents	5,714,941	8,392,865
Investments	5,621,746	2,011,771
Total restricted assets	11,336,687	10,404,636
Noncurrent Assets		
Prepaid electric costs	36,011,023	31,858,839
Unamortized issuance costs	-	921,580
Total noncurrent assets	36,011,023	32,780,419
Current Assets		
Equity in pooled cash	2,063,256	6,407,907
Investments	5,119,574	7,317,121
Accounts receivable, net of allowance for uncollectible amounts of $314,906 and $359,061, respectively	6,466,788	3,671,763
Other receivable	3,950	3,950
Prepaid expense	117,930	152,011
Due from primary government	11,849	11,849
Inventories	2,862,416	2,741,880
Total current assets	16,645,763	20,306,481
Total assets	$ 130,628,967	$ 131,293,796

See Notes to Financial Statements

Net Position and Liabilities

	2013	2012
Net Position		
Invested in capital assets, net of related debt	$ 29,718,020	$ 30,475,340
Restricted for debt service	1,612,057	987,483
Unrestricted	23,574,185	24,811,850
Total net position	54,904,262	56,274,673
Long-term Debt, Less Current Maturities		
Revenue bonds payable	67,445,000	67,865,000
Bond premium (discount), net	716,707	759,026
Accrued compensated absences	510,196	525,365
Total long-term debt, less current maturities	68,671,903	69,149,391
Payable from Restricted Assets		
Revenue bonds – current	420,000	405,000
Customer deposits	1,644,022	1,719,556
Accrued interest	415,938	456,258
Total payable from restricted assets	2,479,960	2,580,814
Current Liabilities		
Accounts payable	2,983,777	1,741,610
Accrued liabilities	247,109	431,648
Due to component units of the primary government	179,312	-
Due to primary government	880,692	705,161
Accrued compensated absences	281,952	410,499
Total current liabilities	4,572,842	3,288,918
Total liabilities	75,724,705	75,019,123
Total net position and liabilities	$ 130,628,967	$ 131,293,796

GEUS

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating Revenues		
Electric	$ 54,576,496	$ 49,655,678
Cable and internet	5,239,826	5,143,745
Total operating revenues	59,816,322	54,799,423
Operating Expenses		
Electric	44,802,901	35,973,563
Cable and internet operations	4,175,756	3,965,543
Administrative	139,203	436,887
City services	231,883	698,272
Insurance	621,871	541,756
Pilot	350,000	350,000
General fund	2,419,687	2,442,075
Board of development	483,936	492,559
Total operating expenses	53,225,237	44,900,655
Operating Income Before Depreciation	6,591,085	9,898,768
Less Depreciation	3,811,878	3,529,617
Operating Income	2,779,207	6,369,151
Nonoperating Revenue (Expenses)		
Investment earnings	39,342	75,101
Interest expense	(3,303,682)	(3,401,754)
Amortization	42,319	(152,470)
Other	(6,017)	(156,305)
Total nonoperating revenue (expenses), net	(3,228,038)	(3,635,428)
Change in Net Position	(448,831)	2,733,723
Net Position, As Previously Reported	56,274,673	53,540,950
Change in Accounting Principle	(921,580)	-
Net Position, Beginning of Year, as Restated	55,353,093	53,540,950
Net Position, End of Year	$ 54,904,262	$ 56,274,673

GEUS

Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from customers and users	$ 56,945,763	$ 52,407,585
Cash paid to employees	(9,117,062)	(8,830,502)
Cash paid to suppliers	(41,785,349)	(36,445,487)
Net cash provided by operating activities	6,043,352	7,131,596
Investing Activities		
Proceeds (purchases) from sales of investments, net	(1,412,428)	(3,823,711)
Interest on investments	30,615	3,191
Net cash used in investing activities	(1,381,813)	(3,820,520)
Financing Activities		
Purchase of capital assets	(2,673,661)	(2,565,104)
Purchase of prepaid electric costs	(5,290,000)	-
Proceeds from sale of capital assets	28,549	(156,305)
Principal payments	(405,000)	(6,205,000)
Interest and fiscal charges	(3,344,002)	(3,441,716)
Net cash used in operating activities	(11,684,114)	(12,368,125)
Decrease in Cash and Cash Equivalents	(7,022,575)	(9,057,049)
Cash and Cash Equivalents, Beginning of Year	14,800,772	23,857,821
Cash and Cash Equivalents, End of Year	$ 7,778,197	$ 14,800,772
Reconciliation of Operating Income (Loss) to Net Cash provided by (used in) Operating Activities:		
Operating income	$ 2,779,207	$ 6,369,151
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	3,811,878	3,529,617
Other gain (loss)	2,710	-
Provision for bad debts	(26,017)	420,359
Change in		
Receivables	(2,769,008)	1,556,716
Prepaid assets	1,171,897	(4,491,419)
Inventory	(120,536)	24,333
Due to component units of the primary government	179,312	-
Due to primary government	175,531	705,161
Compensated absences	(143,716)	63,968
Deposits payable	(75,534)	98,173
Accounts payable and accrued liabilities	1,057,628	(1,144,463)
Net Cash Provided by Operating Activities	$ 6,043,352	$ 7,131,596
Equity in pooled cash	$ 2,063,256	$ 6,407,907
Restricted cash	5,714,941	8,392,865
	$ 7,778,197	$ 14,800,772

See Notes to Consolidated Financial Statements

GEUS
Notes to Financial Statements
September 30, 2013 and 2012

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 approximately 96-square-mile area, which includes the City of Greenville (City). Until 1989, the electric system was owned and operated by the City of Greenville. 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. As a result, there is a lack of financial interdependency between the City and GEUS. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus, Basis of Accounting and Basis of Presentation

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

Accounting and Financial Reporting

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

Unbilled Revenues and Fuel Recovery

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

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost or estimated fair market value for assets contributed by developers. Expenditures for improvements and those that extend the lives of assets are capitalized. Maintenance and repairs are charged to expense currently. 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	20 – 50 years
Improvements other than buildings	5 – 50 years
Machinery and equipment	5 – 35 years
Motor vehicles	10 years

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, 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:

	2013	2012
5% General fund transfer to City	$ 2,419,687	$ 2,442,075
1% Transfer to the City for BOD	483,936	492,559
Payment in lieu of property taxes	350,000	350,000
General and administrative	621,871	541,750
	$ 3,875,494	$ 3,826,384

Cash and Cash Equivalents

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

Inventories

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

Bond Discounts (Premium)

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

Prepaid Electric Costs

Prepaid electric costs represents 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.

New Pronouncements

During the current year ending September 30, 2013, GEUS has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement introduces and defines those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period. The statement amends the net position reporting requirements in GASB 34, *Basic Financial Statements–and Management's Discussion and Analysis–for Local Governments*, and other pronouncements by incorporating deferred outflows and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Additionally, GEUS has implemented GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*. This statement redefines certain financial elements previously reported as assets and liabilities as deferred outflows and deferred inflows of resources. In addition, the statement changes the method of reporting debt issuance costs. Prior to implementation of GASB 65, GEUS reported debt issuance costs, including costs related to bond insurance, as deferred debt expense which was capitalized and amortized over the life of the debt. Deferred debt expense was reported as an asset on the statement of net position. In GASB 65, bond issuance costs, excluding bond insurance costs should never be treated as a prepaid asset, are to be recognized in the period of the debt issue. Implementation of GASB 65 resulted in a restatement of previously reported net position.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net position.

Note 2: Deposits and Investments

Cash and investments as of September 30, 2013, are classified in the accompanying financial statements as follows:

Statement of net position:

Equity in pooled cash	$	2,063,256
Restricted cash and cash equivalents		5,714,941
Investments		10,741,320
Total cash and investments	$	18,519,517

Deposits and investments as of September 30, 2013, consist of the following:

Cash on hand	$	4,403,368
Investments		14,116,149
Total cash and investments	$	18,519,517

The table below identifies the investment types that are authorized for GEUS by the Public Fund Investment 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.

As of September 30, 2013, GEUS had the following investments:

Investment Type	Amount	Weighted-Average Maturity
TexPool	$ 450,563	1 day
Logic	450,611	1 day
Texas CLASS	450,545	1 day
Texas Daily	450,563	1 day
TexStar	4,436,168	1 day
Federal agency securities	7,877,699	901 days
Total	$ 14,116,149	

As of September 30, 2013, GEUS did not invest in any securities which are highly sensitive to interest rate fluctuations.

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.

Investment Type	Amount	Minimum Legal Rating	Rating as of Year-End
TexPool	$ 450,563	N/A	AAAm
Logic	450,611	N/A	AAAm
Texas CLASS	450,545	N/A	AAAm
TexStar	450,563	N/A	AAAm
Texas Daily	4,436,168	N/A	AAAm
Federal agency securities	7,877,699	N/A	AA+
Total	$ 14,116,149		

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, 2013, 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	Federal agency securities	$ 2,823,447
FHLMC	Federal agency securities	2,799,729
FNMA	Federal agency securities	2,254,523
Total		$ 7,877,699

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, 2013, GEUS deposits with financial institutions in excess of federal depository insurance limits were fully collateralized during the year.

Investment in State Investment Pools

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

GEUS

Notes to Financial Statements
September 30, 2013 and 2012

Note 3: Capital Assets

A summary of GEUS' capital assets at September 30, 2013, are as follows:

	Balance September 30, 2012	Increases	Decreases	Transfers	Balance September 30, 2013
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	-	-	-	-	-
Total capital assets not being depreciated	543,613	-	-	-	543,613
Production	54,647,747	736,259	(6,100)	-	55,377,906
Transmission	12,613,519	121,462	-	-	12,734,981
Distribution	25,783,426	773,445	(463,008)	-	26,093,863
General	9,694,017	139,640	(4,381)	-	9,829,276
Cable and internet	17,481,818	882,855	(149,256)	-	18,215,417
Total assets being depreciated	120,220,527	2,653,661	(622,745)	-	122,251,443
Production	21,322,171	1,160,528	(770)	-	22,481,929
Transmission	7,137,345	259,308	-	-	7,396,653
Distribution	12,327,890	859,544	(463,006)	-	12,724,428
General	4,283,900	424,531	(4,380)	-	4,704,051
Cable and internet	7,890,574	1,107,967	(146,040)	-	8,852,501
Total accumulated depreciation	52,961,880	3,811,878	(614,196)	-	56,159,562
GEUS activities capital assets, net	$ 67,802,260	$ (1,158,217)	$ (8,549)	$ -	$ 66,635,494

Note 4: Long-term Debt

A summary of changes in general long-term liabilities for GEUS for the year ended September 30, 2013:

	Balance September 30, 2012	Additions	Deletions	Balance September 30, 2013	Within One Year
Bonds payable:					
Revenue bonds	$ 68,270,000	$ -	$ (405,000)	$ 67,865,000	$ 420,000
Less deferred amounts:					
Issuance premiums	932,209	-	(54,879)	877,330	52,806
Issuance discounts	(173,183)	-	12,560	(160,623)	(12,226)
Total bonds payable	69,029,026	-	(447,319)	68,581,707	460,580
Compensated absences	935,864	165,542	(309,258)	792,148	281,952
Total activity	$ 69,964,890	$ 165,542	$ (756,577)	$ 69,373,855	$ 742,532

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

	2013	2012
Electric system revenue bonds, Series 2008, $16,615,000 originally issued with rates ranging from 4.00% to 5.45%, matures in September 2035	$ 15,455,000	$ 15,860,000
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
	67,865,000	68,270,000
Current maturities	(420,000)	(405,000)
Total long-term debt	$ 67,445,000	$ 67,865,000

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 2010 refunding 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, 2013, are as follows:

Fiscal Year	Principal	Interest	Total Principal and Interest
2014	$ 420,000	$ 3,318,953	$ 3,738,953
2015	435,000	3,301,503	3,736,503
2016	455,000	3,283,303	3,738,303
2017	475,000	3,264,353	3,739,353
2018	490,000	3,244,331	3,734,331
2019-2023	12,485,000	14,695,650	27,180,650
2024-2028	15,970,000	11,170,498	27,140,498
2029-2033	20,385,000	6,729,431	27,114,431
2034-2038	13,715,000	1,922,184	15,637,184
2039-2040	3,035,000	153,623	3,188,623
	$ 67,865,000	$ 51,083,829	$ 118,948,829

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 Texas Municipal Power Agency (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.

As of September 30, 2013 and 2012, total TMPA debt outstanding was approximately $890,139,000 and $981,701,000, 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):

	2013	2012
Operating revenues	$ 271,120	$ 162,491
Operating expenses	134,405	116,368
Operating income	136,715	46,123
Interest charges	(43,613)	(45,542)
Current assets	66,264	55,978
Total assets	1,078,086	1,157,572
Long-term liabilities	890,139	981,701
Total liabilities	1,022,973	1,105,714
Total net position	55,113	51,858

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 $483,936 and $492,559 related to the Board of Development portion during the years ended September 30, 2013 and 2012, 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.

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 NOx 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) NOx credit allocations. Annual SO2 and NOx 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 NOx 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 NOx.

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.

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 (PCRR's) for GEUS' portion of TMPA Gibbons Creek power and also receives PCRR's 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 and Pension Benefits

Texas Municipal Retirement System

Plan Description – The City and its Component Units provides pension benefits for all of its full-time employees (except for firefighters) through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas, 78714-9153, or by calling 800-924-8677; in addition, the report is available on the TMRS website at www.tmrs.com.

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

	2011	2012	2013
Employee deposit rate	7.0%	7.0%	7.0%
Matching ratio (employer to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 20/0	60/5, 20/0	60/5, 20/0
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually, the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeated benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation (asset) are as follows:

	2012	2011	2010
Actuarial Valuation Date			
NPO, beginning of the year	$ -	$ -	$ -
Annual pension cost:			
Annual required contribution (ARC)	1,904,897	2,084,160	2,512,439
Contributions made	(1,904,897)	(2,084,160)	(2,512,439)
NPO, end of the year	$ -	$ -	$ -

The required contribution rates for calendar years 2012 and 2013 were determined as part of the December 31, 2011 and 2012, actuarial valuations, respectively. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Summary of the actuarial assumptions used is as follows:

	December 31, 2012	2011	2010
Actuarial Information			
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization cost method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Amortization period for new gains/losses	25.2 – years closed period	26 – years closed period	27 – years closed period
Asset valuation method	10 – year smoothed market	10 – year smoothed market	10 – year smoothed market
Actuarial Assumptions			
Investment rate of return	7.0%	7.0%	7.0%
Projected salary increases	Varies by age and services	Varies by age and services	Varies by age and services
Inflation	3.0%	3.0%	3.0%
Cost of living adjustment	0.0%	0.0%	0.0%
City specific assumptions			
Payroll growth assumption	3.0%	3.0%	3.0%
Withdrawal rates for male/female (low, mid/low, mid, mid/high or high)	Mid/Mid	Mid/Mid	Mid/Mid

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Schedule of Funding Information						
Actuarial valuation date		12/31/2012		12/31/2011		12/31/2010
Actuarial value of assets	$	84,205,782	$	79,252,550	$	73,985,918
Actuarial accrued liability	$	86,731,497	$	83,388,041	$	79,223,692
Unfunded (over-funded) actuarial Accrued liability (UAAL)	$	2,525,625	$	4,135,491	$	5,237,774
Funded ratio		97.1%		95.0%		93.4%
Annual covered payroll	$	16,513,542	$	16,315,669	$	15,822,592
UAAL as a percentage of covered payroll		15.3%		25.3%		33.1%

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 assets available for postemployment benefits other than pension benefits (OPEB). GEUS' contributions to SDBF for the fiscal year ended September 30, 2013 and 2012, were $12,902 and $26,412, 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 fixed amount of $7,500. The obligations of this plan are payable only from the SDBF.

Note 9: Other Postemployment Benefits

Plan Description

Prior to 2010, the City provided postemployment medical care (OPEB) for employees through a single-employer defined benefit medical plan. During 2010, the City entered into an inter-local agreement with the Texas Municipal League (TML) Intergovernmental Employee Benefits Pool (IEBP) to provide medical and dental benefits to eligible City retirees, their spouses and dependents.

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

Benefits Provided

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

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

All medical care benefits are provided through the TML IEBP. Retirees may remain covered until age 65 or eligibility for Medicare.

As of September 30, 2013, membership consisted of:

Retirees and beneficiaries receiving benefits	21
Active employees	361
Total	382

Funding Policy

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

Members receiving medical benefits contribute the following amounts per month for coverage in the plan:

	Bronze	Silver	Gold	Platinum
Retiree only	$ 474	$ 522	$ 575	$ 634
Retiree + dependents	518	602	627	691

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

Annual OPEB Cost

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

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

	September 30, 2013	September 30, 2012
Annual required contribution	$ 230,368	$ 252,943
Interest on prior year net OPEB obligation	7,342	2,758
Adjustment to annual required contribution	(7,342)	(2,758)
Annual OPEB cost	230,368	252,943
Contributions made	85,100	151,068
Increase in net OPEB obligation	145,268	101,875
Net obligation, beginning of year	163,166	61,291
Net obligation, end of year	$ 308,434	$ 163,166
Percentage of OPEB costs contributed	36.9%	59.7%

Funding Status and Funding Progress

The funding status of other postemployment benefits as of December 31, 2012, the date of the latest actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	$ 2,179,921
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	$ 2,179,921
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll	$ 16,274,762
Unfunded actuarial accrued liability as a percentage of covered payroll	13.39%

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

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

Actuarial Methods and Assumptions

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

In the December 31, 2012 actuarial valuation, the Projected Unit Credit, Level Percent of Payroll actuarial cost method has been used to calculate the ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to convert the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. If experience is in accordance with the assumptions used, the ARC will increase at approximately the same rate as active member payroll, and the ARC as a percentage of payroll will remain basically level on a year to year basis. The use of another actuarial cost method would produce different results.

The key actuarial assumptions of the December 31, 2012 actuarial valuation include: (a) rate of investment return of 4.50% per year, compounded annually net after investment expenses; (b) a sliding scale of salary increases for TMRS employees ranging from 5.50% to 12.00%, and an increase in salary for firefighters of 4.25%, compounded annually; (c) payroll growth rate for financing unfunded actuarial accrued liabilities assumed to be 3.00%; (d) health care increases of 3.00% and (e) the amortization period is 30 years-closed period.

Note 10: Subsequent Events

During the year ending September 30, 2015, GEUS will implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. The effects of implementing this statement is unknown, but is expected to have a material effect on net position.

GEUS has evaluated all events or transactions that occurred after September 30, 2013 up through April 16, 2014, the date the financial statements were available to be issued. During this period, there were no subsequent events or transactions noted that would have a material effect on GEUS' financial condition.