

**GEUS
(A COMPONENT UNIT OF THE CITY OF GREENVILLE)**

FINANCIAL REPORT

SEPTEMBER 30, 2012



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
GEUS
Greenville, Texas

We have audited the accompanying financial statements of GEUS (a component unit of the City of Greenville) as of September 30, 2012 and 2011, and for the years then ended, as listed in the accompanying table of contents. These financial statements are the responsibility of the management of GEUS. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GEUS at September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2013, on our consideration of GEUS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a 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

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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.

Weaver and Tidwell LLP

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
April 18, 2013

GEUS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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 balance sheets, statements of revenues, expenses and changes in net assets, 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, 2012, by \$56,274,673 (*net assets*). Of this amount, \$24,811,850 (*unrestricted net assets*) may be used to meet GEUS' ongoing obligations to customers and creditors.
- GEUS' total net assets increased by \$2,733,723. This increase is the result of a planned rate structure to over collect in first few years of rate implementation. This was year two.
- GEUS' revenue bond liabilities decreased by \$6,205,000 during the current fiscal year. This decrease was the result of current year debt service payments and defeasement of the Series 2001 bonds.

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 Balance Sheets 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 assets. These statements measure the success of GEUS' operations over the past year and can be used to determine whether GEUS has

GEUS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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.

Table A-1
Condensed Statement of Net Assets

GEUS
BALANCE SHEET INFORMATION

	September 30,		
	2012	2011	2010
Assets			
Electric plant	\$ 58,211,016	\$ 59,503,027	\$ 59,991,680
Cable and Internet equipment	9,591,244	9,263,745	9,281,741
Restricted assets	10,404,636	15,612,039	12,419,150
Deferred charges	32,780,419	28,629,631	29,604,100
Current assets	<u>20,306,481</u>	<u>22,111,608</u>	<u>15,630,098</u>
Total assets	<u>\$ 131,293,796</u>	<u>\$ 135,120,050</u>	<u>\$ 126,926,769</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 30,475,340	\$ 25,388,821	\$ 24,962,208
Restricted for revenue bond debt service	987,483	947,750	890,068
Unreserved	<u>24,811,850</u>	<u>27,204,379</u>	<u>18,150,563</u>
Total net assets	<u>56,274,673</u>	<u>53,540,950</u>	<u>44,002,839</u>
Liabilities			
Long-term debt, less current maturities	69,149,391	74,560,692	75,609,705
Payable from restricted assets	2,580,814	3,222,603	3,242,775
Current liabilities	<u>3,288,918</u>	<u>3,795,805</u>	<u>4,071,450</u>
Total liabilities	<u>75,019,123</u>	<u>81,579,100</u>	<u>82,923,930</u>
Total net assets and liabilities	<u>\$ 131,293,796</u>	<u>\$ 135,120,050</u>	<u>\$ 126,926,769</u>

GEUS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

Net Assets

Net assets 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.

Net assets increased by \$9,538,111 or 21.7% for the year ended September 30, 2011. GEUS had a record year for metered sales as a result of an unusually hot summer. Additionally, the new rates were implemented on October 1, 2010. In addition, off-system sales into the ERCOT wholesale market were significantly greater than normal.

Current Assets

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.

The \$6.5 million increase in current assets as of September 30, 2011 is mainly attributable to an increase in cash and investments of almost \$6 million. There was a planned over-collection in the first couple of years of the new rates to offset future TMPA rate increases and with the goal of achieving stable retail rates for three-to-five years.

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 \$1,000,000 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.

Property, plant and equipment net of accumulated depreciation, decreased approximately \$500,000 from \$69.3 million as of September 30, 2010 to \$68.8 million as of September 30, 2011. The decrease is related mostly to routine retirements and depreciation. The electric assets went up from \$100.4 million to \$102 million while associated depreciation went up from \$40.4 million to \$42.4 million. The cable and Internet assets went from \$15.7 million to \$16.5 million while associated depreciation went from \$6.5 million to \$7.3 million.

Future capital expenditures are expected to range from a high of \$2.8 million in 2013 to a low of \$1.8 million projected in 2015.

**GEUS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

Current Liabilities

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.

Current liabilities decreased by \$275,645 from September 30, 2010 to September 30, 2011 primarily due to a \$255,000 decrease in accounts payable and to a \$26,000 decrease in accrued compensated absences.

Long-Term Debt

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. GEUS' underlying debt is rated "A2" and "A+" by Moody's and Standard and Poor's, respectively.

GEUS' long-term debt decreased approximately \$1.05 million for the year ended September 30, 2011. The decrease was due to the principal payments made in 2011.

**Table A-2
Condensed Statement of Revenues, Expenses and Changes in Net Assets**

	For the Years Ending September 30,		
	2012	2011	2010
Operating revenues	\$ 54,799,423	\$ 74,124,580	\$ 58,217,135
Non-operating revenues	75,101	132,334	98,158
Total revenues	54,874,524	74,256,914	58,315,293
Depreciation expense	3,529,617	3,499,636	3,081,374
Other operating expense	44,900,655	57,573,562	51,135,058
Non-operating expense	3,710,529	3,645,605	2,672,758
Total expenses	52,140,801	64,718,803	56,889,190
Change in net assets	2,733,723	9,538,111	1,426,103
NET ASSETS BEGINNING OF YEAR	53,540,950	44,002,839	42,576,736
NET ASSETS END OF YEAR	\$ 56,274,673	\$ 53,540,950	\$ 44,002,839

GEUS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

Operating Revenues and Operating Expenses

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.

GEUS' charges for services increased approximately \$15.9 million for the year ended September 30, 2011 compared to September 30, 2010. The increase is due to a \$2.4 million increase in the base portion of the retail sales and a \$300,000 increase in the fuel portion. The PCRF which collected \$5 million in 2010 was discontinued; transfer revenues for the City and the Board of Development, which were added to the new rates as separate line items, collected \$2.7 million. Off-system sales increased by \$15.7 million largely due to the way the Nodal market works and offset by increased costs of power but also due to the success of our Power Supply group in the new Nodal Market.

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 TCOS expenses and higher programming and Internet costs. Transfers to the City and Board of Development were down due to the decreased sales dollars. Non-operating expenses are up slightly due to the amortization expense associated with the defeased debt.

Operating expenses increased by \$6.5 million for the year ended September 30, 2011 compared to September 30, 2010. The increase is primarily due to an increase in fuel costs of \$5.9 million which is offset by the increases in the fuel portion of retail sales and off-system sales. There were budgeted increases in O&M expenses including the O&M expenses associated with salaries and insurance, the cost of operating the new customer service and C/I building and higher programming and Internet costs. There were also increases due to higher gasoline costs, higher TCOS expenses as well as other transmission expenses, environmental clean-ups and transformer maintenance. Transfers to the City and Board of Development were up due to the increased sales dollars. The percent transfer to the City also changed from 3% to 5% in May 2010. Non-operating expenses are up due to the interest expense associated with the new debt.

**GEUS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

Change in Net Assets

The change in net assets 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.

The change in net assets during the year ended September 30, 2011 was an increase of \$9,538,111. The basics behind the increase were increased revenues from higher weather-related retail sales, the success of our Power Supply group in the new Nodal Market and our ability to produce power with locally owned and operated generation resources to make off-system sales at times of high wholesale market prices. The retail rate study conducted in 2010 led to the first structural rate change in years which was implemented in October 2010. Base rates were moderately increased, while the PCRF was eliminated and transfers to the City and the Board of Development were added.



GEUS
BALANCE SHEETS
SEPTEMBER 30, 2012 AND 2011

ASSETS	2012	2011
PROPERTY, PLANT AND EQUIPMENT		
Production	\$ 54,808,938	\$ 54,700,308
Transmission	12,667,020	12,536,121
Distribution	26,001,844	25,208,944
General	9,804,520	9,491,396
Construction in progress	-	53,306
Cable and Internet equipment	<u>17,481,818</u>	<u>16,524,945</u>
Property, plant and equipment	120,764,140	118,515,020
Less accumulated depreciation	<u>52,961,880</u>	<u>49,748,248</u>
Property, plant and equipment, net	<u>67,802,260</u>	<u>68,766,772</u>
RESTRICTED ASSETS		
Cash and cash equivalents	8,392,865	13,521,589
Investments	<u>2,011,771</u>	<u>2,090,450</u>
Total restricted assets	<u>10,404,636</u>	<u>15,612,039</u>
DEFERRED CHARGES		
Prepaid electric costs	31,858,839	27,517,726
Unamortized issuance costs	<u>921,580</u>	<u>1,111,905</u>
Total deferred charges	<u>32,780,419</u>	<u>28,629,631</u>
CURRENT ASSETS		
Equity in pooled cash	6,407,907	10,336,232
Investments	7,317,121	3,342,821
Accounts receivable, net of allowance for uncollectible amounts of \$359,061 in 2012 and \$178,509 in 2011	3,671,763	5,648,838
Other receivable	3,950	3,950
Prepaid expense	152,011	1,705
Due from primary government	11,849	11,849
Inventories	<u>2,741,880</u>	<u>2,766,213</u>
Total current assets	<u>20,306,481</u>	<u>22,111,608</u>
TOTAL ASSETS	<u><u>\$ 131,293,796</u></u>	<u><u>\$ 135,120,050</u></u>

The Notes to Financial Statements are an integral part of these statements.

	2012	2011
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	\$ 30,475,340	\$ 25,388,821
Restricted for debt service	987,483	947,750
Unreserved	<u>24,811,850</u>	<u>27,204,379</u>
Total net assets	<u>56,274,673</u>	<u>53,540,950</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES		
Revenue bonds payable	67,865,000	73,370,000
Bond (discount) premium	759,026	796,880
Accrued compensated absences	<u>525,365</u>	<u>393,812</u>
Total long-term debt, less current maturities	<u>69,149,391</u>	<u>74,560,692</u>
PAYABLE FROM RESTRICTED ASSETS		
Revenue bonds - current	405,000	1,105,000
Customer deposits	1,719,556	1,621,383
Accrued interest	<u>456,258</u>	<u>496,220</u>
Total payable from restricted assets	<u>2,580,814</u>	<u>3,222,603</u>
CURRENT LIABILITIES		
Accounts payable	1,741,610	3,047,119
Accrued liabilities	431,648	270,602
Due to primary government	705,161	-
Accrued compensated absences	<u>410,499</u>	<u>478,084</u>
Total current liabilities	<u>3,288,918</u>	<u>3,795,805</u>
TOTAL LIABILITIES	<u>75,019,123</u>	<u>81,579,100</u>
TOTAL NET ASSETS AND LIABILITIES	<u>\$ 131,293,796</u>	<u>\$ 135,120,050</u>

GEUS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES - Charges for services		
Electric	\$ 49,655,678	\$ 69,171,343
Cable and Internet	<u>5,143,745</u>	<u>4,953,237</u>
Total revenue	54,799,423	74,124,580
OPERATING EXPENSES		
Electric	35,973,563	49,205,811
Cable and Internet	3,965,543	3,705,186
Administrative	436,887	262,050
City services	541,756	725,181
Insurance	698,272	-
Pilot	350,000	319,600
General fund	2,442,075	2,793,511
Board of development	<u>492,559</u>	<u>562,223</u>
Total operating expenses	44,900,655	57,573,562
OPERATING INCOME BEFORE DEPRECIATION	9,898,768	16,551,018
LESS DEPRECIATION	<u>3,529,617</u>	<u>3,499,636</u>
OPERATING INCOME	<u>6,369,151</u>	<u>13,051,382</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	8,671	59,774
Market value adjustment	66,430	(13,639)
Interest expense	(3,401,754)	(3,661,168)
Amortization	(152,470)	15,563
Intergovernmental grants	-	75,212
Other	<u>(156,305)</u>	<u>10,987</u>
Total non-operating revenues (expenses) - net	<u>(3,635,428)</u>	<u>(3,513,271)</u>
NET INCOME	2,733,723	9,538,111
NET ASSETS, BEGINNING OF YEAR	<u>53,540,950</u>	<u>44,002,839</u>
NET ASSETS, END OF YEAR	<u>\$ 56,274,673</u>	<u>\$ 53,540,950</u>

The Notes to Financial Statements are
an integral part of these statements.

GEUS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 52,407,585	\$ 74,456,679
Cash paid to employees	(8,830,502)	(8,821,284)
Cash paid to suppliers	<u>(36,445,487)</u>	<u>(48,931,479)</u>
Net cash provided by operating activities	7,131,596	16,703,916
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital outlay	(2,565,104)	(2,992,299)
Capital grants	-	75,212
Interest and fiscal charges	(3,441,716)	(3,666,955)
Proceeds from sale of capital assets	(156,305)	10,987
Principal payments on revenue bonds	<u>(6,205,000)</u>	<u>(1,000,000)</u>
Net cash used in capital and related financing activities	<u>(12,368,125)</u>	<u>(7,573,055)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturities of investment securities	2,986,506	2,171,762
Purchase of investment securities	(6,810,217)	(3,880,444)
Interest received	3,191	59,773
Net cash used in investing activities	<u>(3,820,520)</u>	<u>(1,648,909)</u>
Net increase (decrease) in cash and cash equivalents	<u>(9,057,049)</u>	<u>7,481,952</u>
Cash and cash equivalents, October 1	23,857,821	16,375,869
Cash and cash equivalents, September 30	<u>\$ 14,800,772</u>	<u>\$ 23,857,821</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 6,369,151	\$ 13,051,382
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,529,617	3,499,636
Provision for bad debts	420,359	54,230
Change in assets and liabilities		
Decrease (increase) trade receivables	1,556,716	(338,453)
Decrease (increase) prepaid assets	(4,491,419)	947,303
Decrease (increase) inventory	24,333	(211,596)
Increase (decrease) due to primary government	705,161	-
Increase compensated absences	63,968	70,657
Increase (decrease) deposits payable	98,173	(119,385)
Decrease accounts payable and accrued liabilities	<u>(1,144,463)</u>	<u>(249,858)</u>
Total adjustments	<u>762,445</u>	<u>3,652,534</u>
Net cash provided by operating activities	<u>\$ 7,131,596</u>	<u>\$ 16,703,916</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Increase (decrease) in fair value of investments	71,910	(13,639)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:		
Equity in pooled cash	\$ 6,407,907	\$ 10,336,232
Restricted cash	<u>8,392,865</u>	<u>13,521,589</u>
Total cash and cash equivalents	<u>\$ 14,800,772</u>	<u>\$ 23,857,821</u>

The Notes to Financial Statements are an integral part of these statements.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

GEUS provides electric, cable, and Internet services to customers in an approximately 96-square-mile area, which includes the City of Greenville (the 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 (the "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 non-voting, 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.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Governmental Accounting Standards Board (GASB) Statement No. 20 requires GEUS to apply all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions and Accounting Research Bulletins on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements, with the option to apply non-GASB pronouncements after November 30, 1989. Subsequent to such date, GEUS has chosen not to apply FASB pronouncements.

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 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.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. Depreciation of current-year additions and retirements is computed at the straight-line rate for a complete year. The following is a summary of the depreciation rates used on the major classes of depreciable fixed assets:

Buildings	2% to 5%
Improvements other than buildings	2% to 20%
Machinery and equipment	3% to 20%
Motor vehicles	20%

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 worker's compensation self-insurance plan of the City.

Salaries and wages and related fringe benefit costs of City employees who perform GEUS-related duties are charged to GEUS. 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>2012</u>	<u>2011</u>
5% General fund transfer to City	\$ 2,199,607	\$ 2,560,937
1% Transfer to the City for BOD	492,559	562,223
Payment in lieu of property taxes	350,000	319,600
General and administrative	<u>784,224</u>	<u>957,755</u>
	<u><u>\$ 3,826,390</u></u>	<u><u>\$ 4,400,515</u></u>

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Investments

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at the time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

Inventories

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

Bond Discounts (Premium)/Issuance Costs

Bond discounts (premium) and issuance costs 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, whereas issuance costs are recorded as deferred charges.

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.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 2. CASH AND INVESTMENTS

Cash and investments as of September 30, 2012 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:

Equity in pooled cash	\$ 6,407,907
Restricted cash and cash equivalents	8,392,865
Investments	7,317,121
Restricted Investments	<u>2,011,771</u>
 Total cash and investments	<u>\$ 24,129,664</u>
 Cash on hand	\$ 3,159
Savings and checking accounts	3,633,356
Investments	<u>20,493,149</u>
 Total cash and investments	<u>\$ 24,129,664</u>

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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 2. CASH AND INVESTMENTS – CONTINUED

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, 2012, GEUS had the following investments:

Investment Type	Amount	Weighted Average Maturity
TexPool	\$ 1,668,630	41 days
Logic	1,683,017	48 days
Texas CLASS	1,700,866	44 days
Texas Daily	4,440,895	50 days
Certificates of Deposit	873,165	39 days
TexStar	1,668,633	47 days
Federal Agency Securities	<u>8,457,943</u>	37 days
Total	<u>\$ 20,493,149</u>	

As of September 30, 2012 GEUS did not invest in any securities which are highly sensitive to interest rate fluctuations.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Disclosures Relating to Credit Risk – Continued

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	\$ 1,668,630	N/A	AAAm
Logic	1,683,017	N/A	AAAm
Texas CLASS	1,700,866	N/A	AAAm
Texas Daily	4,440,895	N/A	AAAf
Certificates of Deposit	873,165	N/A	N/A
TexStar	1,668,633	N/A	AAAm
Federal Agency Securities	<u>8,457,943</u>	N/A	AAA
Total	<u>\$ 20,493,149</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, 2012 other than external investment pools, investments that represent 5% or more of GEUS' total are as follows:

Issuer	Investment Type	Reported Amount
U.S. TREASURY NOTE	Federal agency securities	\$ 3,151,372
FHLMC	Federal agency securities	2,149,361
FNMA	Federal agency securities	1,367,810
FANNIE MAE	Federal agency securities	1,223,836

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

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Custodial Credit Risk – Continued

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 100% of the principal plus accrued interest less the amount insured by the FDIC.

As of September 30, 2012 GEUS' deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

Investment in State Investment Pools

GEUS is a voluntary participant in various investment pools. These pools included the following: TexPool, Logic, Texas Daily, Texas CLASS and TexStar.

GEUS invested in TexPool. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. 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. This type of investment pool uses amortized costs rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool. TexPool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

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 GEUS is 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 assets to compute share prices. Accordingly, the fair value of the position in LOGIC is the same as the value of LOGIC shares. In accordance with GASB Statement No. 31, 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 the time of purchase, and money market mutual funds at amortized costs.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Investment in State Investment Pools – Continued

GEUS invested in Texas Daily, a portfolio of the TexasTERM Local Government Investment Pool (the “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. TexasTERM is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexasTERM is directed by an advisory board composed of experienced government officials, finance directors and treasurers. TexasTERM operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexasTERM uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexasTERM is the same as the value of TexasTERM shares.

GEUS invested in the Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) which was created as an investment pool for its participants in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Texas CLASS is directed by an advisory board composed of both participants in Texas CLASS and other persons who have no business relationship with Texas CLASS. Texas CLASS operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. Texas CLASS uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in Texas CLASS is the same as the value of Texas CLASS shares.

GEUS invested in the Texas Short Term Asset Reserve Fund (TexStar), a Local Government Investment Pool, which was created by Texas local governments to provide investment programs tailored to the investment objectives of Texas state and local governments. TexStar was created in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexStar operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexStar uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexStar is the same as the value of TexStar shares.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 3. CAPITAL ASSETS

A summary of GEUS' capital assets at September 30, 2012, are as follows:

	Balance at October 1, 2011	Increases	Decreases	Transfers	Balance at September 30, 2012
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	53,306	-	-	(53,306)	-
Total capital assets not being depreciated	596,919	-	-	(53,306)	543,613
Production	54,539,117	108,630	-	-	54,647,747
Transmission	12,482,620	123,069	-	7,830	12,613,519
Distribution	24,990,526	792,900	-	-	25,783,426
General	9,380,893	373,275	(21,210)	(38,941)	9,694,017
Cable and Internet	16,524,945	1,177,084	(304,628)	84,417	17,481,818
Total assets being depreciated	117,918,101	2,574,958	(325,838)	53,306	120,220,527
Production	18,626,443	147,937	-	-	18,774,380
Transmission	8,423,359	1,261,777	-	-	9,685,136
Distribution	11,493,050	834,840	-	-	12,327,890
General	3,944,196	406,429	(66,725)	-	4,283,900
Cable and Internet	7,261,198	878,635	(249,259)	-	7,890,574
Total accumulated depreciation	49,748,246	3,529,618	(315,984)	-	52,961,880
GEUS activities capital assets, net	\$ 68,766,774	\$ (954,660)	\$ (9,854)	\$ -	\$ 67,802,260

NOTE 4. LONG-TERM DEBT

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

	2012	2011
Electric revenue refunding and improvement bonds, Series 2001, \$7,950,000 originally issued with rates ranging from 4.00% to 5.00%.	\$ -	\$ 5,820,000
Electric revenue refunding and improvement bonds, Series 2008, \$16,615,000 originally issued with rates ranging from 4.00% to 5.45%.	15,860,000	16,245,000
Electric revenue refunding bonds, Series 2010, \$52,410,000 originally issued with rates ranging from 4.70% to 5.00%	52,410,000	52,410,000
	68,270,000	74,475,000
Current maturities	(405,000)	(1,105,000)
Total long-term debt	\$ 67,865,000	\$ 73,370,000

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 4. LONG-TERM DEBT – CONTINUED

The City ordinances authorizing the electric revenue refunding bonds and subsequent ordinances assigning the bonds to GEUS stipulate that in addition to principal and interest requirements, GEUS will deposit the lesser of 10% of the outstanding principal or the average annual requirements for the payment of principal and interest or a surety bond with coverage sufficient to meet debt requirements. GEUS established a debt service reserve fund with a portion of the proceeds from the 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, 2012, are as follows:

Fiscal Year	Principal	Interest	Total Principal and Interest
2013	\$ 405,000	\$ 3,344,003	\$ 3,749,003
2014	420,000	3,327,503	3,747,503
2015	435,000	3,310,403	3,745,403
2016	455,000	3,292,603	3,747,603
2017	475,000	3,274,003	3,749,003
2018-2022	10,230,000	15,315,822	25,545,822
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>\$ 68,270,000</u>	<u>\$ 54,798,691</u>	<u>\$ 123,068,691</u>

NOTE 5. COMMITMENTS AND CONTINGENCIES

Agreement with TMPA

In 1975, the City, along with the cities of Bryan, Denton and Garland, Texas (the 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.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 5. COMMITMENTS AND CONTINGENCIES

Agreement with TMPA – Continued

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, 2012 and 2011, total TMPA debt outstanding was approximately \$981,701,000 and \$1,084,031,000, 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 is as follows (in thousands):

	<u>September 30</u>	
	<u>Unaudited</u>	
	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 162,491	\$ 180,586
Operating expenses	116,368	159,862
Operating income	46,123	20,724
Other expense	(45,542)	(42,406)
Current assets	55,978	49,373
Total assets	1,157,572	1,189,165
Long-term debt	981,701	1,084,031
Total liabilities	1,105,714	1,137,686
Total equity	51,858	51,479

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 \$492,559 and \$562,223 related to the Board of Development portion during the years ended September 30, 2012 and 2011, respectively.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

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

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

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 6. ENVIRONMENTAL REGULATION – CONTINUED

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 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 provide 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), one of 842 administered by TMRS, an agent multiple-employer public employee retirement system. The City of Greenville, Texas is one of 842 municipalities having the benefit plan administered by TMRS. Each of the 842 Municipalities have an annual, individual actuarial valuation performed.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 8. EMPLOYEE RETIREMENT AND PENSION BENEFITS

Texas Municipal Retirement System – Continued

All assumptions for the December 31, 2011 valuations are contained in the 2011 TMRS Comprehensive Annual Financial Report, a copy which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. GEUS participates fully in the City's plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit, which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of 3/1/2012):

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after:	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5 yrs/age 60, 20 yrs/any age.

Contributions

The contribution rate for an employee is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body and the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 8. EMPLOYEE RETIREMENT AND PENSION BENEFITS – CONTINUED

Contributions – Continued

The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the 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 serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2010, valuation is effective for rates beginning January 2012).

Annual Pension Costs

Contributions by GEUS were \$778,480 or 12.25% of the covered payroll of \$6,357,234 as required by the actuarial valuation. Plan participants contributed \$445,006. The total fiscal year 2012 payroll was \$6,506,327.

Annual City and its Component Units' pension cost and related information for the last three years is as follows:

Actuarial Information	FY 2011-12	FY 2010-11	FY 2009-10
	12/31/11	12/31/10	12/31/09
Actuarial cost method	Projected Credit Level %	Projected Unit Credit Level %	Projected Unit Credit Level %
Amortization method	26 years-closed period	27 years-closed period	28 years-closed period
Amortization period	10-year smoothed market	10-year smoothed market	10-year smoothed market
Asset valuation method			
Assumptions			
Investment return	7.0%	7.0%	7.5%
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

GEUS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 8. EMPLOYEE RETIREMENT AND PENSION BENEFITS – CONTINUED

Annual Pension Costs – Continued

<u>Schedule of Funding Information</u>	FY 2011-12 12/31/11	FY 2010-11 12/31/10	FY 2009-10 12/31/09
Actuarial valuation date			
Actuarial Value of Assets	\$79,252,550	\$73,985,918	\$46,305,791
Actuarial Accrued Liability	\$83,388,041	\$79,223,692	\$59,468,506
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$4,135,491	\$5,237,774	\$13,162,715
Funded ratio	95.0%	93.4%	77.9%
Annual Covered Payroll	16,315,669	15,822,592	15,244,096
UAAL as a Percentage of Covered Payroll	25.3%	33.1%	86.3%

The City and its component units' net pension obligation (NPO) for TMRS at December 31, 2011, 2010 and 2009 is calculated as follows:

	FY 2011-12 12/31/11	FY 2010-11 12/31/10	FY 2009-10 12/31/09
Actuarial valuation date:			
NPO, beginning of the year	\$ -	\$ -	\$ -
Annual pension cost:			
Annual required contribution (ARC)	2,584,376	2,512,439	2,523,674
Contributions made	(2,584,376)	(2,512,439)	(2,523,674)
NPO, end of the year	\$ -	\$ -	\$ -

Supplemental Death Benefit Fund:

The City and its 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 under 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.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 8. EMPLOYEE RETIREMENT AND PENSION BENEFITS – CONTINUED

Annual Pension Costs – Continued

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 fully participates in the plan and made contributions to the SDBF for the fiscal year ended September 30, 2012, in the amount of \$26,412, which equaled the required contributions.

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 and are not an obligation of, or claim against, the Pension Trust Fund.

NOTE 9. OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

Prior to 2010, the City provided post-employment 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.

B. Benefits Provided

The City provides post-employment 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 ninety days from termination of employment; and
- 3) Enroll for retiree Health coverage within thirty one 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 9. OTHER POST EMPLOYMENT BENEFITS – CONTINUED

B. Benefits Provided – Continued

As of September 30, 2012, membership consisted of:

Retirees and beneficiaries receiving benefits	24
Active employees	<u>368</u>
Total	<u><u>392</u></u>

C. 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:

	<u>Bronze</u>	<u>Silver</u>	<u>Gold</u>	<u>Platinum</u>
Retiree only	\$ 594	\$ 649	\$ 704	\$ 784
Retiree + dependents	1,230	1,344	1,458	1,625

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.

D. 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 thirty years.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9. OTHER POST EMPLOYMENT BENEFITS – CONTINUED

D. Annual OPEB Cost – Continued

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

	2012	2011
Annual required contribution	\$ 252,943	\$ 252,943
Interest on prior year net OPEB obligation	2,758	40,012
Change in estimate	-	(889,151)
Adjustment to annual required contribution	<u>(2,758)</u>	<u>(40,012)</u>
Annual OPEB cost	252,943	(636,208)
Contributions made	<u>151,068</u>	<u>191,652</u>
Increase in net OPEB obligation	101,875	(827,860)
Net obligation - beginning of year	<u>61,291</u>	<u>889,151</u>
Net obligation - end of year	<u>\$ 163,166</u>	<u>\$ 61,291</u>
Percentage of OPEB costs contributed	100%	100%

E. Funding Status and Funding Progress

The funding status of other postemployment benefits as of December 31, 2010, the date of the latest actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 2,503,858
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	<u>\$ 2,503,858</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
 Covered payroll	 \$16,315,669
Unfunded actuarial accrued liability as a percentage of covered payroll	15.35%

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.

GEUS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9. OTHER POST EMPLOYMENT BENEFITS – CONTINUED

E. Funding Status and Funding Progress – Continued

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.

F. 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 healthcare cost trend.

In the December 31, 2010 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, 2010 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 fire fighters of 4.25%, compounded annually; (c) payroll growth rate for financing unfunded actuarial accrued liabilities assumed to be 3.00%; (d) healthcare increases of 3.00%; and (e) the amortization period is 30 years-closed period.

NOTE 10. SUBSEQUENT EVENTS

GEUS has evaluated all events or transactions that occurred after September 30, 2012 up through April 18, 2013, the date the financial statements were issued. During this period, there were no subsequent events or transactions noted that would have a material effect on GEUS' financial condition.