Texas Municipal Power Agency
Financial Statements

For the Years Ended September 30, 2012 and 2011

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TEXAS MUNICIPAL POWER AGENCY

FINANCIAL SECTION

weaver

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Texas Municipal Power Agency

We have audited the accompanying balance sheets of Texas Municipal Power Agency (the Agency) as of September 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows, for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of September 30, 2012 and 2011 and the respective changes in financial position and respective cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the Agency's other post-employment benefits on pages 2 through 8 and page 42 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 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
December 7, 2012

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL

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Texas Municipal Power Agency
Management's Discussion and Analysis ("MD&A")
For the Years Ended September 30, 2012 and 2011
(Unaudited)

The objective of this discussion and analysis is to provide the reader with information relevant to an assessment of the financial condition and the results of operations of the Texas Municipal Power Agency (Agency or "TMPA"). This report contains supplemental information in addition to the basic financial statements of the enterprise operation. TMPA's management encourages readers to refer the accompanying basic financial statements and their related notes for more detailed information concerning the financial condition of the Agency. The basic financial statements are comprised of the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, Statements of Cash Flows, the related notes, and Required Supplementary Information, which are an integral part of the financial statements.

Financial and Operational Highlights for Fiscal Year Ended September 30, 2012

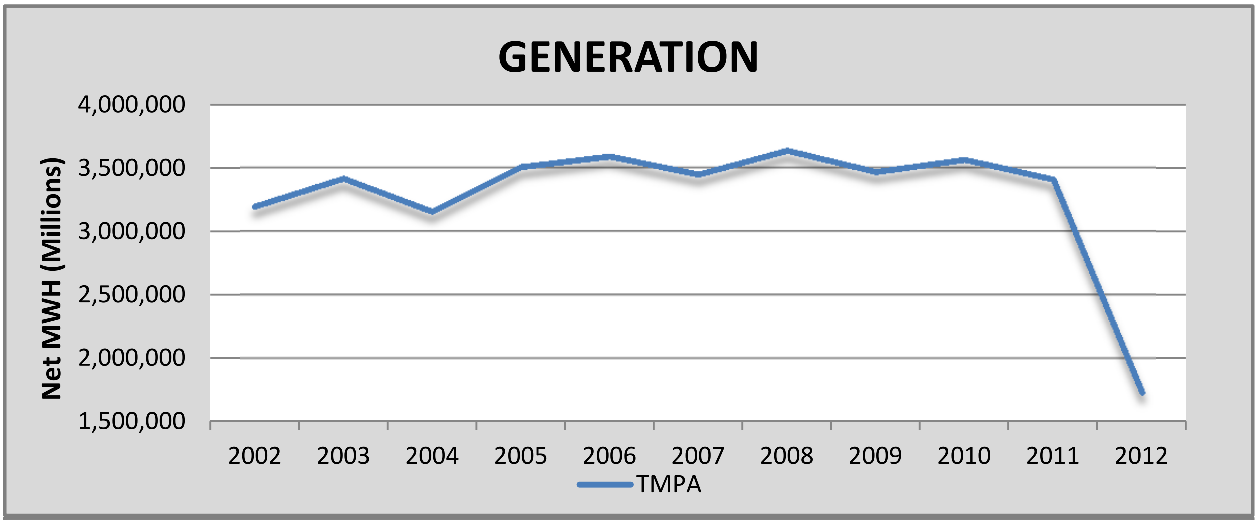
Fiscal Year (FY) 2012 was an unusual year in the Texas energy market. Low natural gas prices combined with the new, efficient Texas Nodal Market resulted in exceptionally low electric power prices. In the Electric Reliability Council of Texas (ERCOT) and across the nation, normally base loaded coal plants were displaced by high efficiency natural gas generation. Due to these factors, TMPA's generation was 52% less than the prior year.

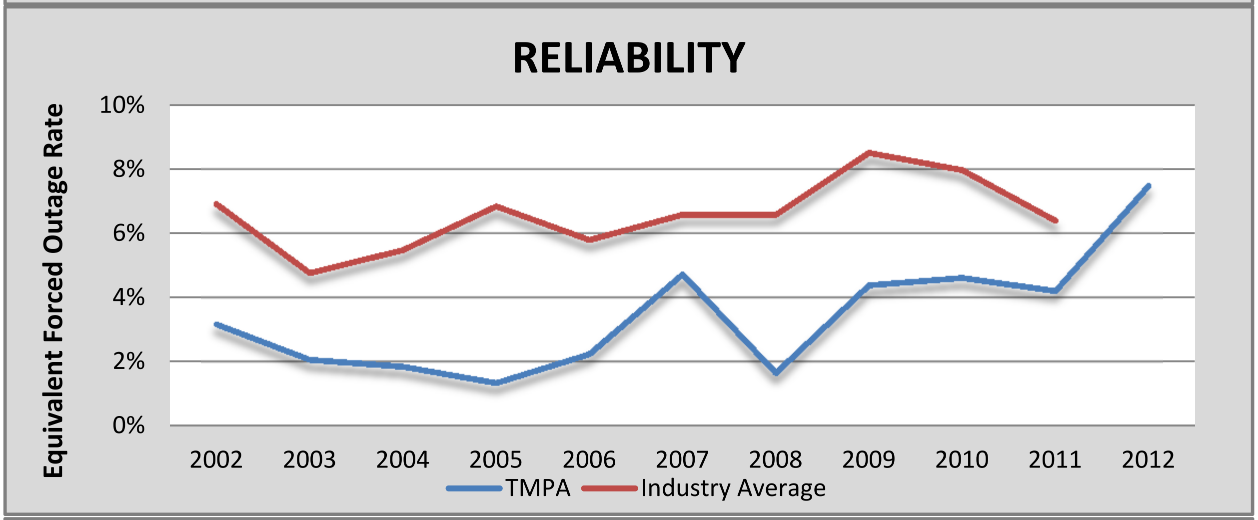
Between January and April 2012, the Gibbons Creek plant was in an extended period of reserve shutdown, allowing our Member Cities to purchase economical market power. The plant was called back into operation in May and performed well during the summer season. Management anticipated that the plant would return to reserve shutdown in the fall months; however, natural gas prices rose sufficiently that the plant remained online in a cycling mode, following the daily energy demand and price curves.

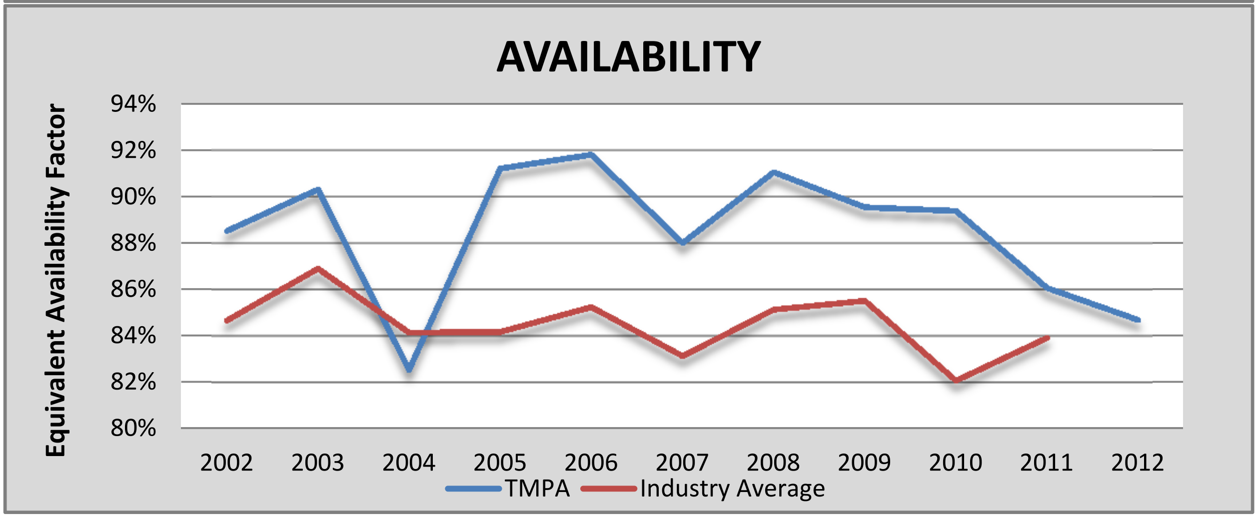
Due to low market power prices anticipated in the near future, TMPA Management restructured the Agency to better fit a peaking operation, reducing staff from 162 to 112. It also took the opportunity to negotiate coal and coal transportation contract rates to a more favorable position.

Under the current debt structure, all generation debt will be paid off by September 1, 2018, causing the Power Sales Contract to expire on that same date. Thereafter, all remaining debt will be transmission debt, payable solely from transmission system revenues. Between now and September 1, 2018, TMPA and the Member Cities will be evaluating and developing a plan in relation to the ownership, operational, and contractual issues associated with Gibbons Creek following September 1, 2018. In addition, TMPA will continue to evaluate TMPA's operational costs in order to minimize those costs while still meeting the level of reliability expected by the Member Cities.

The graphs on the following page show key statistics on generation, outage rate, and availability for the 10 year period ending in FY 2012.





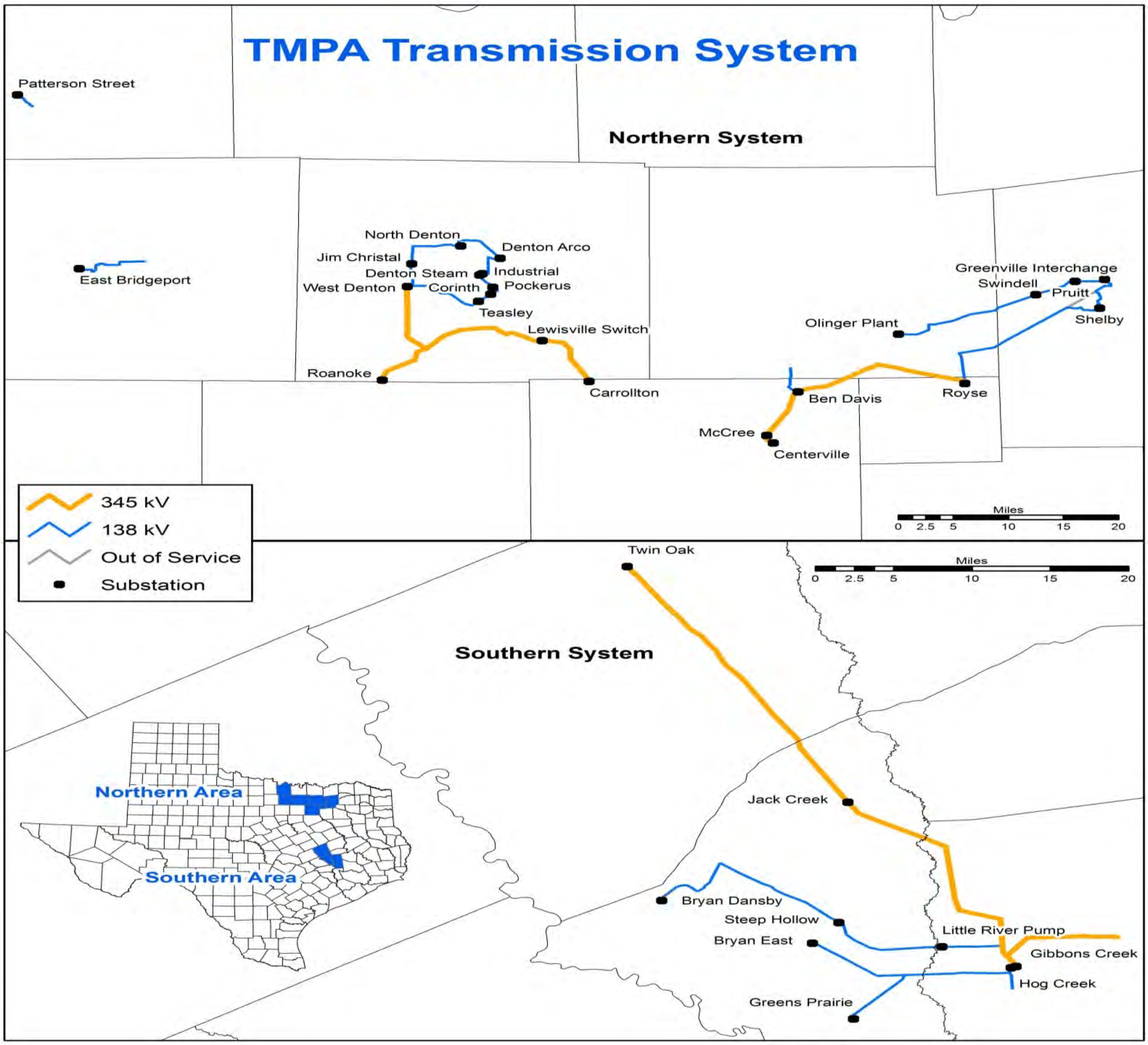


Industry averages are based on NERC GADS data for coal-fired units from 400 to 599 MW that are 22 to 38 years old, in order to capture a similar group of plants to which to compare Gibbons Creek's performance. GADS data is based on calendar years 2002-2011. Industry average data is not available for 2012. TMPA data is based on fiscal years 2002-2012.

The Transmission System remained highly reliable despite near record electrical usage in ERCOT and no sustained unplanned outages were experienced in FY 2012.

TMPA has approximately 300 miles of transmission lines (both 345kV and 138kV), 14 substations, and maintains additional transmission assets within jointly-owned transmission stations. TMPA is a registered Transmission Owner in ERCOT and participates in various technical working groups which support the ongoing operation of the ERCOT grid.

Several capital projects were approved during FY 2012 that will span the next five years with the goal of refurbishing, upgrading, and replacing aging transmission assets. These projects are needed to ensure system reliability as electricity usage increases and changing generation patterns drive expansion of the ERCOT transmission system.



Texas Municipal Power Agency
Balance Sheet Information
(Dollars in Thousands)

	September 30,		
	2012	**2011**	**2010**
Assets			
Current Assets			
Current Unrestricted Assets	$ 46,026	$ 45,321	$ 44,080
Current Restricted Assets	9,952	4,052	4,017
Total Current Assets	55,978	49,373	48,097
Noncurrent Assets			
Electric Plant	448,500	463,643	441,978
Other Assets	653,094	676,149	699,929
Total Noncurrent Assets	1,101,594	1,139,792	1,141,907
Total Assets	$ 1,157,572	$ 1,189,165	$ 1,190,004
Liabilities			
Current Liabilities			
Current Liabilities	$ 124,013	$ 53,655	$ 54,554
Total Current Liabilities	124,013	53,655	54,554
Noncurrent Liabilities			
Long Term Debt	758,809	826,414	787,195
Noncurrent Liabilities Other Than Debt	222,892	257,617	290,612
Total Noncurrent Liabilities	981,701	1,084,031	1,077,807
Total Liabilities	1,105,714	1,137,686	1,132,361
Net Assets			
Invested in Capital Assets Net of Related Debt	51,469	26,804	31,871
Net Assets Restricted for Insurance Claims	10,366	8,977	8,798
Unrestricted Net Assets (Deficit)	(9,977)	15,698	16,974
Total Net Assets	51,858	51,479	57,643
Total Liabilities and Net Assets	$ 1,157,572	$ 1,189,165	$ 1,190,004

Three years presented as required by GASB 34

Balance Sheet Information
Explanations of Significant Variances

Current Restricted Assets increased $5.9 million (146%) due to a portion of the higher FY 2013 debt service being classified as current.

Electric Plant decreased by $15 million (3%) due to normal depreciation. During FY 2012, the estimated useful lives of the Agency's transmission assets were revised to 40-years.

Other Assets decreased by $23 million (3%) in FY 2012. Other assets consist of restricted cash and investments, unamortized debt issuance costs, unamortized excess cost on refunding, and deferred expenses to be recovered in future years. Unamortized debt issuance costs and unamortized excess costs on refunding decreased from the prior year by $7.8 million (28%) due to normal amortization. Deferred Expenses to be Recovered decreased by $19 million (4%) parallel to payments of debt principal and zero coupon bond interest, which are the basis for their recovery. Management anticipates deferred expenses to continue to decrease as the generation debt is paid off between now and FY 2018.

Current Liabilities increased $70 million (131%) and **Long-Term Debt** decreased by $68 million (8%) primarily due to the reclassification of a portion of debt to current since it will be paid within a year.

Noncurrent Liabilities Other Than Debt consists of deferred revenues, other postemployment benefits, long-term mine reclamation costs, risk management accruals, and retainage payables. Noncurrent liabilities other than debt decreased by $35 million (13%) due primarily to the amortization of deferred revenues, which are the result of the Member Cities providing prepayments of their contractual obligation to the Agency to pay debt in advance of its scheduled maturity. The accompanying notes to the Financial Statements contain additional information related to deferred revenues in Note 2.

Net Assets consists of Invested in Capital Assets Net of Related Debt (ICANORD), Net Assets Restricted for Insurance Claims, and Unrestricted Net Assets. While total net assets increased by $0.4 million (1%), ICANORD increased by $24.7 million (92%) and Unrestricted Net Assets decreased by $25.7 million (164%). ICANORD increased primarily due to the amortization of deferred revenues of $35 million. This increase was mostly offset by the reduction in plant due to normal depreciation. Unrestricted Net Assets decreased mainly due to a reduction in deferred expense to be recovered of $19.2 million as a result of recovering previously deferred expenses parallel to the Agency's debt principal payments and to the amortization of deferred revenues. Additionally, the normal accretion of interest on the Agency's zero coupon bonds contributed to the decrease.

Texas Municipal Power Agency
Operating Information
(Dollars in Thousands)

	For the Years-Ended September 30, 2012	2011	2010
Operating Revenues			
Power Sales	$ 112,265	$ 138,069	$ 211,684
Transmission Revenues	47,166	40,323	39,865
Other Operating Revenues	3,060	2,194	2,098
Total Operating Revenues	162,491	180,586	253,647
Operating Expenses			
Fuel	48,338	81,428	78,697
Power Production - Operation and Maintenance	16,274	22,296	18,630
Transmission - Operation and Maintenance	2,071	2,063	2,791
Administrative and General	14,444	12,525	11,749
Transmission System Access Fee	13,532	12,509	11,242
Depreciation Expense	18,979	18,242	14,533
Renewals and Replacements	2,730	10,799	6,356
Total Operating Expenses	116,368	159,862	143,998
Income from Operations	46,123	20,724	109,649
Other Income (Expenses)			
Investment Revenue	812	572	996
Miscellaneous Other Income (Expenses)	2,500	2,719	(999)
Total Other Income	3,312	3,291	(3)
Interest Charges			
Interest Expense on Debt	38,454	38,341	44,869
Amortization of Debt Issuance Cost and Excess Cost on Advance Refunding of Debt	7,088	7,356	9,641
Total Interest Charges	45,542	45,697	54,510
Deferred Expense Recovered in the Current Year	(19,187)	(7,510)	(31,856)
Deferred Revenue Recognized in the Current Year	34,949	34,949	17,474
Net Revenues before Refunds	19,655	5,757	40,754
Refunds to Member Cities	19,276	11,921	23,438
Change in Net Assets	379	(6,164)	17,316
Net Assets			
Beginning Balance	51,479	57,643	40,327
Ending Balance	$ 51,858	$ 51,479	$ 57,643

Three years presented as required by GASB 34

Operating Information
Explanations of Significant Variances

Power Sales revenue decreased $25.8 million (19%) in FY 2012. Power Sales are based upon two components, demand and energy. The demand component is designed to cover the Agency's fixed costs and is billed ratably throughout the year. The energy component is based on the cost of fuel and billed per-unit of generation. Energy sales were down $28.1 million (38%) due to lower generation resulting from low market power prices, offset by a higher energy rate resulting from increased fuel transportation costs from Burlington Northern Santa Fe (BNSF). Demand sales were up slightly by $2.3 million (4%).

Transmission Revenue increased due to the participants in the ERCOT transmission system settling a long standing rate dispute from 1999, yielding a settlement payment of $4.9 million to TMPA as well as load growth on the ERCOT system.

Fuel Expense decreased $33 million (41%) in FY 2012, due to lower generation offset by $6.4 million of settlement expenses on the coal transportation and coal supplier contracts.

Power Production Operation and Maintenance decreased $6 million (27%) due to reducing the scope of the FY 2012 planned maintenance outage, fewer operating hours from the reserve shutdown extending operating-time based maintenance intervals, and the reserve shutdown allowing more maintenance to occur outside the planned maintenance outage incurring less overtime.

Transmission System Access Fee represents the transmission charges associated with delivering power to the Member Cities, as promulgated by the Public Utility Commission of Texas (PUCT). The fee increased $1 million (8%) in FY 2012, due to higher transmission rates approved by the PUCT.

Administrative and General Expenses increased $1.9 million primarily due to increased rates on the liquidity facility required by the Agency's $255 million tax exempt commercial paper program. Additionally, consulting fees were higher due to implementing the staff restructuring and legal fees were higher due to negotiation of the coal transportation and supply contracts.

Renewals and Replacements Expense represents large maintenance projects and decreased $8.1 million (75%) due to lower generation extending the maintenance interval on large equipment and the prior year planned outage being particularly large.

Miscellaneous Other Income was $2.5 million due primarily to a gain on the disposal of a transformer insured at replacement value.

Deferred Expense Recovered in the Current Year increased $11.7 million (155%) primarily due to higher debt service, which is the basis for recovering most deferred expenses, increasing recoveries by $8.5 million and the recovery of $3 million of fuel expense associate with the BNSF coal transportation rate increase deferred from the prior year.

Refunds to Member Cities increased $7.4M (62%) due primarily to the refund of the $4.9 million transmission settlement discussed above. The remainder was due to the refund of debt service coverage collected per the bond covenants. FY 2012 had higher debt service than FY 2011 and accordingly more debt service coverage.

BASIC FINANCIAL STATEMENTS

Texas Municipal Power Agency
Balance Sheets
(Dollars in Thousands)

Assets

	September 30, 2012	September 30, 2011
Current Assets		
Current Unrestricted Assets		
Cash and Cash Equivalents	$ 14,282	$ 19,766
Inventories		
Fuel Stock	13,803	7,945
Materials and Supplies	6,329	5,867
Accounts Receivable and Other	11,417	11,510
Accrued Interest Receivable	195	233
Total Current Unrestricted Assets	46,026	45,321
Current Restricted Assets		
Cash and Cash Equivalents	9,257	3,496
Accounts Receivable and Other	695	556
Total Current Restricted Assets	9,952	4,052
Total Current Assets	55,978	49,373
Noncurrent Assets		
Electric Plant		
In Service	1,097,562	1,084,692
Less Accumulated Depreciation	(651,010)	(633,452)
Total Net Plant	446,552	451,240
Construction Work in Progress	1,948	12,403
Total Electric Plant	448,500	463,643
Other Assets		
Restricted Cash and Investments (Cash and Cash Equivalents $38,908 and $59,492 for 2012 and 2011, respectively)	146,255	142,339
Unamortized Debt Issuance Cost	3,225	3,809
Unamortized Excess Cost on Advance Refunding of Debt	16,723	23,946
Deferred Expense to be Recovered in Future Years	486,891	506,055
Total Other Assets	653,094	676,149
Total Noncurrent Assets	1,101,594	1,139,792
Total Assets	$ 1,157,572	$ 1,189,165

The accompanying notes are an intregral part of the financial statements.

Texas Municipal Power Agency
Balance Sheets
(Dollars in Thousands)

Liabilities and Net Assets

	September 30, 2012	September 30, 2011
Current Liabilities		
Current Maturities of Revenue Bonds	$ 32,300	$ 8,265
Zero Coupon Bonds Payable	65,728	23,933
Accrued Interest Payable	736	716
Accounts Payable	13,595	15,068
Deferred Revenue	5,290	-
Accrued Distribution to Member Cities	1,193	994
Accrued Compensation and Pension Benefits	3,615	2,656
Accrued Mine Reclamation Cost	1,556	2,023
Total Current Liabilities	124,013	53,655
Noncurrent Liabilities		
Long-Term Debt		
Revenue Bonds	275,528	307,829
Unamortized Discount/Premium	4,679	5,398
Zero Coupon Bond Payable	265,602	303,087
Tax Exempt Commercial Paper	213,000	210,100
Total Long-Term Debt	758,809	826,414
Other Employee Retirement Benefits	11,754	9,628
Accounts Payable	945	1,402
Deferred Revenue	206,782	241,731
Accrued Mine Reclamation Cost	3,411	4,856
Total Long-Term Obligations	222,892	257,617
Total Noncurrent Liabilities	981,701	1,084,031
Total Liabilities	1,105,714	1,137,686
Net Assets		
Invested in Capital Assets Net of Related Debt	51,469	26,804
Net Assets Restricted for Insurance Claims	10,366	8,977
Unrestricted Net Assets (Deficit)	(9,977)	15,698
Total Net Assets	51,858	51,479
Total Liabilities and Net Assets	$ 1,157,572	$ 1,189,165

The accompanying notes are an integral part of the financial statements.

Texas Municipal Power Agency
Statements of Revenues, Expenses and Changes in Net Assets
(Dollars in Thousands)

	For the Years Ended September 30, 2012	2011
Operating Revenues		
Power Sales	$ 112,265	$ 138,069
Transmission Revenues	47,166	40,323
Other Operating Revenues	3,060	2,194
Total Operating Revenues	162,491	180,586
Operating Expenses		
Fuel	48,338	81,428
Power Production - Operation and Maintenance	16,274	22,296
Transmission - Operation and Maintenance	2,071	2,063
Administrative and General	14,444	12,525
Transmission System Access Fee	13,532	12,509
Depreciation Expense	18,979	18,242
Renewals and Replacements	2,730	10,799
Total Operating Expenses	116,368	159,862
Income from Operations	46,123	20,724
Other Income		
Investment Revenue	812	572
Miscellaneous Other Income, Net	2,500	2,719
Total Other Income	3,312	3,291
Interest Charges		
Interest Expense on Debt	38,454	38,341
Amortization of Debt Issuance Cost and Excess Cost on Advance Refunding of Debt	7,088	7,356
Total Interest Charges	45,542	45,697
Deferred Expense Recovered in the Current Year	(19,187)	(7,510)
Deferred Revenue Recognized in the Current Year	34,949	34,949
Net Revenues before Refunds	19,655	5,757
Refunds to Member Cities	19,276	11,921
Change in Net Assets	379	(6,164)
Net Assets		
Beginning Balance	51,479	57,643
Ending Balance	$ 51,858	$ 51,479

The accompanying notes are an integral part of the financial statements.

Texas Municipal Power Agency
Statements of Cash Flows
(Dollars in Thousands)

	For Years Ended September 30, 2012	2011
Cash Flows from Operating Activities		
Cash Received from Power Sales	$ 113,474	$ 138,864
Cash Received from Transmission Revenues	37,025	29,360
Cash Received from Other Revenues	1,541	3,786
Cash Paid to Suppliers	(80,897)	(118,450)
Cash Paid to Employees	(13,812)	(16,288)
Net Cash Provided by Operating Activities	57,331	37,272
Cash Flows from Capital and Related Financing Activities		
Proceeds from Sale of Assets	2,399	2,397
Proceeds from Tax Exempt Commercial Paper	7,400	41,400
Proceeds from Member Cities	5,290	-
Payment of Tax Exempt Commercial Paper	(4,500)	-
Construction Work in Progress	(3,105)	(38,464)
Payment of Principal on Debt	(8,265)	(6,620)
Interest Paid on Debt	(34,130)	(33,715)
Refunds to Member Cities	(19,076)	(11,385)
Net Cash Used for Capital and Related Financing Activities	(53,987)	(46,387)
Cash Flows from Investing Activities		
Proceeds from Sale of Investments	96,121	170,057
Interest and Dividends on Investments	487	629
Purchase of Investments	(120,259)	(171,513)
Net Cash Used for Investing Activities	(23,651)	(827)
Net Decrease in Cash	(20,307)	(9,942)
Beginning Cash Balance	82,754	92,696
Ending Cash Balance	$ 62,447	$ 82,754

The accompanying notes are an integral part of the financial statements.

Texas Municipal Power Agency
Statements of Cash Flows
(Dollars in Thousands)

Reconciliation of Income from Operations to Net Cash Provided by Operating Activities

	For Years Ended September 30, 2012	2011
Income from Operations	$ 46,123	$ 20,724
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operations:		
Depreciation Expense	18,979	18,242
Change in Accounts Receivables and Other	94	539
Change in Inventories	(6,320)	(2,251)
Change in Accrued Mine Reclamation Cost	(1,911)	(808)
Change in Accounts Payable	(2,658)	(2,080)
Change in Accrued Compensation and Pension Benefits	959	(250)
Change in Other Employee Retrirement Benefits	2,126	2,309
Miscellaneous Non-Operating Activities	(61)	847
Total	11,208	16,548
Net Cash Provided by Operating Activities	$ 57,331	$ 37,272

Noncash Investing and Financing Activities:

The Agency recorded increases in fair market value of its investments of $357 as of September 30, 2012 and increases in fair market value of its investments of $83 as of September 30, 2011.

The accompanying notes are an integral part of the financial statements.

TEXAS MUNICIPAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

Texas Municipal Power Agency
Notes to Financial Statements

Index

1. General

The Texas Municipal Power Agency ("TMPA" or the "Agency") was created on July 18, 1975 through the adoption of concurrent ordinances by the Texas Cities of Bryan, Denton, Garland, and Greenville ("Cities" or "Member Cities"), pursuant to TMPA's enabling legislation, Acts 1975, 64th Leg., Ch. 143, Sec. 1, now codified in Subchapter C, Chapter 163, Utilities Code (the "Act"). Under the provisions of the Act, TMPA is a separate municipal corporation and political subdivision. TMPA is exempt from payment of federal income taxes under Section 115 of the Internal Revenue Code.

The Agency is governed by a Board of Directors made up of two representatives from each Member City and is empowered to plan, finance, acquire, construct, own, operate, and maintain facilities to be used in the business of generation, transmission, and sale of electric energy to the Member Cities.

In September 1976, TMPA entered into identical Power Sales Contracts (the "Contract") with each of the Cities for the purpose of obtaining for the Cities the economic advantages of jointly financing, constructing, and operating large electric generating units and related facilities to supply the Cities' future energy needs. Under the Contract, the Cities are required to pay, for the benefits received or to be received by them from such activities, an amount sufficient to pay TMPA's operating and maintenance expenses and the Bond Fund, Reserve Fund, and Contingency Fund requirements of the Revenue Bond Resolutions (the "Resolutions"). In addition, the Cities are obligated to guarantee the payment of TMPA's Prior Lien Bonds (the "Debt Service Guarantee").

As originally written in September 1976, the Contract was a requirements contract, which obligated the Cities, with certain exceptions, to purchase their wholesale electricity requirements from TMPA. On November 5, 1997, the Contract was amended. Under the amendment, the Contract was converted from a requirements contract to a take-or-pay contract, under which each City is obligated to take or pay for a specified percentage of electricity from TMPA's generating facility. Currently, those percentages are Bryan 21.7%, Denton 21.3%, Garland 47%, and Greenville 10%. The amendment confirmed the Cities' obligations, explained above, to pay all costs of TMPA. The Debt Service Guarantee, contained in the Contract since September 1976, was not changed by the amendment. Concurrently with the execution of the amendment on November 5, 1997, a Travis County District Court validated the Contract as amended and confirmed the authority of TMPA to enter into the amendment.

Effective June 24, 2010, the Contract was amended to enable TMPA to issue debt secured by transmission revenues ("Transmission Debt"). Transmission Debt issued prior to September 1, 2018, is to be secured by Net Revenues until September 1, 2018, and solely by transmission revenues thereafter. Transmission Debt issued after September 1, 2018, must be secured solely by transmission revenues. On August 30, 2010, pursuant to the amendment to the Contract, TMPA issued its first series of Transmission Debt. The final maturity date of such series of Transmission Debt is September 1, 2040.

The Contract requires TMPA to make periodic refunds to the Member Cities of funds collected to satisfy debt service coverage bond covenants and net assets (adjusted for net asset reserves) in excess of 3.5% of the subsequent year's budget, which is retained for working capital purposes. The term of the Contract is for a period of 35 years from September 1, 1976 or until all bonds and certain other indebtedness of the Agency are paid, whichever occurs later. At present, the final maturity of the Agency's indebtedness, other than Transmission Debt which has no effect on the term of the Contract, is September 1, 2018, at which time the Contract will terminate, although it is possible that the Agency could restructure such debt to shorten or extend the schedule of its debt retirement.

TMPA operates the Gibbons Creek Steam Electric Station ("GCSES"), a coal-fired generating plant located in Grimes County, Texas with a net generating capability of 470 megawatts. The plant began commercial operation on October 1, 1983. TMPA also owns and operates electric transmission assets in the State of Texas. These transmission facilities provide ties to the Member Cities and to other transmission providers at a number of points in the Electric Reliability Council of Texas ("ERCOT") system.

Regulation

The Agency's Board of Directors regulates TMPA's generation activities. Transmission activities are regulated by ERCOT and the PUCT. Each transmission service provider in ERCOT is required to provide non-discriminatory access to the electric grid in ERCOT. As compensation for this service, each transmission service provider annually receives its Transmission Cost of Service ("TCOS"), which is set by the PUCT.

2. Summary of Significant Accounting Policies

System of Accounts

The accounting records of TMPA are maintained substantially in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC") for Class A and Class B Public Utilities and Licensees.

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

The accounts of TMPA are organized and operated based on account groups in a fund. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in accounting for resources.

TMPA maintains an Enterprise Fund to account for its operations. An Enterprise Fund, which is a Proprietary Fund type, 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 when 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

The Agency's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

GASB Statement No. 20 requires the Agency to apply all GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued 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, the Agency has chosen to apply all GASB pronouncements and no FASB pronouncements.

The Agency presents its financial statements in accordance with GASB Statement No. 34 ("GASB 34"), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended.

The Agency follows the provisions of FASB Accounting Standards Codification Section 980-340, *Regulated Operations - Other Assets and Deferred Costs*. In general, Section 980-340 permits an entity with cost-based rates to defer certain costs or income, which would otherwise be recognized when incurred. Costs are deferred to the extent that the rate-regulated entity is recovering or expects to recover such amounts through rates charged to customers while income is deferred to the extent that current rates are expected to cover costs to be incurred in the future.

GASB Pronouncements Effective in FY2012

GASB Statement No. 57 ("GASB 57"), *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, addressed the frequency and timing of OPEB liability measurements for multiple-employer OPEB plans. The Agency's OPEB plan is a single-employer plan, and as such, implementation had no impact on the Agency.

GASB Statement No. 64 ("GASB 64"), *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* provided guidance and clarification on interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. This Statement also set forth criteria that establishes when the effective hedging relationship continues and when hedge accounting should continue to be applied. Since the Agency is not engaged in these types of instruments, implementation had no impact on the financial statements of the Agency.

GASB Pronouncements Effective in FY 2011

GASB Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions,* established fund balance classifications that comprise a hierarchy based primarily on the extent to which a governmental entity is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Since the Agency maintains a proprietary fund, which is not a governmental fund, implementation of GASB 54 had no impact on the Agency.

GASB Pronouncements Issued but Not Yet Effective

In November 2010, GASB issued Statement No. 60 ("GASB 60"), *Accounting and Financial Reporting for Service Concession Arrangements,* addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As described in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. GASB 60 is effective for the fiscal year ending September 30, 2013 but since the Agency is not engaged in these types of arrangements, it will have no impact on the financial statements.

In November 2010, GASB issued Statement No. 61 ("GASB 61"), *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34,* addressing reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. GASB 61 is effective for the fiscal year ending September 30, 2013. However, since no component units exist for the Agency, the Statement will have no impact on the financial statements.

In December 2010, GASB issued Statement No. 62 ("GASB 62"), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* incorporating into GASB's authoritative literature certain accounting and financial reporting guidance included in the following pronouncements which were issued on or before November 30, 1989 and which do not conflict with or contradict GASB Pronouncements: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on

Accounting Procedure. GASB 62 is effective for the fiscal year ending September 30, 2013 but will have no impact on the Agency.

In June 2011, GASB issued Statement No. 63 ("GASB 63"), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* providing guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources 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. GASB 63 is effective for the fiscal year ending September 30, 2013. Continued study is needed to determine its impact on the financial statements of the Agency.

In March 2012, GASB issued Statement No. 65 ("GASB 65"), *Items Previously Reported as Assets and Liabilities*, establishing accounting and financial reporting standards that reclassify and recognize, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 is effective for the fiscal year ending September 30, 2014. While continued study is needed to determine its impact on the financial statements of the Agency, it is anticipated that the implementation will change how certain assets and liabilities are reported on the balance sheet.

In March 2012, GASB issued Statement No. 66 ("GASB 66"), *Technical Corrections – 2012 – An Amendment to GASB No. 10 and No. 62*, resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB 66 is effective for the fiscal year ending September 30, 2014 but will have no impact on the Agency.

In June 2012, GASB issued Statement No. 67 ("GASB 67"), *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, improving financial reporting by state and local government pension plans resulting from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information , supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB 67 is effective for the fiscal year ending September 30, 2014. Continued Study is needed to determine its impact on the financial statements of the Agency.

In June 2012, GASB issued Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, replacing the requirements of GASB No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Additionally, this statement aims to improve accounting and financial reporting by state and local governments for pensions and improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 is effective for the fiscal period ending September 30, 2015. Continued study is needed to determine its impact on the financial statements of the Agency.

Electric Plant

Electric plant, with the exception of mine-related assets, is stated at historical cost. During construction, such costs include payroll and payroll-related amounts such as taxes and employee benefits, general and administrative costs, and an allowance for funds used in projects. Subsequent to the closing of the mining operation and recognition of the related impairment in 1996, mine-related assets are reported at net realizable value. Costs incurred for repairs and minor replacements are reported as operating expenses as appropriate. Upon retirement of the electric plant, the original cost thereof and the cost of removal, less salvage, are charged to accumulated depreciation. The Agency's capitalization policy requires expenditures exceeding $50,000 that are capital in nature to be capitalized.

Electric plant components, net of accumulated depreciation as of September 30, 2012 and 2011 are as follows (in thousands):

Summary of Additions, Less Transfers and Retirements to Plant

	Oct. 1, 2011	Additions	Transfers	Retirements	Sept. 30, 2012
Generation	$ 672,375	$ 1,124	$ 11,130	$ -	$ 684,629
Transmission	243,393	316	2,961	(2,728)	243,942
Mine-Related	52,632	-	-	-	52,632
General Plant	104,599	67	-	-	104,666
Other	10,775	-	-	-	10,775
Intangible Assets	918	-	-	-	918
Total Plant	1,084,692	1,507	14,091	(2,728)	1,097,562
Accumulated Depreciation					
Generation	(429,443)	(14,105)	-	-	(443,548)
Transmission	(105,882)	(4,948)	-	2,717	(108,113)
Mine-Related	(37,355)	-	-	-	(37,355)
General Plant	(59,407)	-	-	-	(59,407)
Other	(1,348)	(1,207)	-	-	(2,555)
Intangible Assets	(17)	(15)	-	-	(32)
Total Accumulated Depreciation	(633,452)	(20,275)	-	2,717	(651,010)
Construction Work in Progress	12,403	3,636	(14,091)	-	1,948
Total Plant	$ 463,643	$ (15,132)	$ -	$ (11)	$ 448,500

	Oct. 1, 2010	Additions	Transfers	Retirements	Sept. 30, 2011
Generation	$ 566,443	$ 9,028	$ 96,904	$ -	$ 672,375
Transmission	228,481	574	14,338	-	243,393
Mine-Related	52,632	-	-	-	52,632
General Plant	105,044	208	-	(653)	104,599
Other	10,802	-	-	(27)	10,775
Intangible Assets	918	-	-	-	918
Total Plant	964,320	9,810	111,242	(680)	1,084,692
Accumulated Depreciation					
Generation	(409,241)	(20,202)	-	-	(429,443)
Transmission	(99,573)	(6,309)	-	-	(105,882)
Mine-Related	(37,355)	-	-	-	(37,355)
General Plant	(58,698)	(1,179)	-	470	(59,407)
Other	(1,348)	-	-	-	(1,348)
Intangible Assets	-	(17)	-	-	(17)
Total Accumulated Depreciation	(606,215)	(27,707)	-	470	(633,452)
Construction Work in Progress	83,873	40,226	(111,403)	(293)	12,403
Total Plant	$ 441,978	$ 22,329	$ (161)	$ (503)	$ 463,643

Allowance for Funds Used in Projects

Since inception, TMPA capitalized to electric plant approximately $135,592,728 of the interest cost funded through bond proceeds and commercial paper. The amount of interest capitalized will be recovered in future years by setting rates sufficient to provide funds for the related debt service requirements. TMPA capitalized interest costs of $4,594 and $639,646 during 2012 and 2011, respectively.

Depreciation

Depreciation is calculated using the straight-line method over the estimated useful lives of the various classes of plant. Prior to 2012, generation and transmission assets were depreciated using a single asset depreciation model where both classes of assets were being depreciated to the life of the generating facility. However, beginning in 2012, because transmission assets have separate distinct lives independent of the generating facility, transmission asset useful lives were changed to 40 years. Therefore, subsequent to the change in useful lives of transmission assets, depreciation is calculated over the following estimated useful lives:

Generation Assets	Life of the Generating Facility (currently to 2030)
Transmission Assets	40 Years
Other Utility Plant	5 to 20 Years

Annual depreciation provisions expressed as a percentage of average depreciable plant were approximately 2.0% and 2.1% in 2012 and 2011, respectively. During 2012 and 2011, depreciation expense was $18,979,394 and $18,241,699, respectively.

The change in transmission asset useful lives had the following impact on operating income and net assets in 2012:

FY 2012 Depreciation Expense (under old life)	$20,512,985
FY 2012 Depreciation Expense (under new life)	$18,979,394
Net Effect on Operating Income	$ 1,533,591
Deferral of Depreciation Expense	$ (1,533,591)
Net Effect on Change in Net Assets	$ 0

Renewals and Replacements

In accordance with the Resolutions and the Contract, the balance of excess revenues is used to fund authorized renewals and replacements projects after all required deposits into restricted funds have been made. The original cost of the projects is capitalized in electric plant in service and an offsetting contra account is established to reflect the expensing of those projects as renewals and replacements expense. TMPA rates billed to the Cities are designed to cover renewals and replacements. Renewals and replacements funding not utilized in the current year is carried forward for future capital projects. During 2012 and 2011, renewals and replacements expense was $2,729,504 and $10,799,483, respectively. At September 30, 2012 and 2011 $5,475,129 and $4,937,674 were carried forward, respectively.

Summary of Additions, Less Transfers and Retirements to Plant

As of September 30, 2012, accumulated depreciation activity of $17.6 million includes depreciation expense of $19.0 million, renewals and replacements of $1.3 million, less retirements and transfers of $2.7 million. As of September 30, 2011, accumulated depreciation activity of $27.2 million includes depreciation expense of $18.2 million, renewals and replacements of $9.4 million, less retirements and transfers of $.4 million.

Investments

Investments are stated at fair value and consist primarily of United States ("U.S.") Government and Agency obligations and prime commercial paper issues. TMPA invests in commercial paper with Standard & Poor's rating of "A1" or Moody's rating of "P-1". TMPA's investment manager, First Southwest Asset Management, Inc., obtains market prices used in the fair value calculation of U.S. Government and Agency instruments from Interactive Data Corporation ("IDC").

Funds invested in the Texas Local Government Investment Pool ("TexPool") represent ownership of a pro-rata share of the underlying assets of the pool. The pool invests primarily in obligations of the U.S. Government, the State of Texas, or its agencies and instrumentalities, repurchase agreements, and other highly rated instruments as authorized by state law. TexPool is controlled by the State Comptroller of Public Accounts of Texas and only invests in assets that are authorized under both the Public Funds Investment Act and the TexPool Investment Policy. TexPool is operated in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool's investments are carried at amortized cost, which approximates fair value. Therefore, TMPA's investment in TexPool approximates fair value.

GASB Statement No. 31 ("GASB 31"), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires investments to be reported at fair value rather than at cost. Rates paid by the Member Cities include estimates for anticipated realized investment income. Net unrealized gains on the fair value of investments, excluding investments in the risk management fund, were $349,000 and $60,000 for the years ended September 30, 2012 and 2011, respectively, and were deferred and recorded as a component of Other Assets-Deferred Expense to be Recovered in Future Years. Total net unrealized gain of $103,000 as of September 30, 2012 and total net unrealized loss of $246,000 as of September 30, 2011, are recorded in Other Assets-Deferred Expense to be Recovered in Future Years. Recognition of investment fair value changes in the Statement of Operations and Net Assets occurs when the investments mature or are sold.

Inventories

Fuel stock and materials and supplies inventories are valued at cost, using weighted average methods.

Rates for Power Sales

TMPA's rates for power and energy billed to the Cities are designed to cover annual system costs as defined in the Resolutions and the Contract. In general, costs are defined to include TMPA's costs of operations (except for depreciation and amortization). It is the Agency's practice to budget approximately 1.30 times debt service requirements. The rates are set by the Board of Directors annually and are required to be reviewed on an annual basis. TMPA's practice is to periodically refund accumulated excess revenues to the Cities to the extent available funds after debt service coverage and specified required reserves have been met.

Revenues

Revenues from the sale of electricity are based upon two components, demand and energy. The demand component is a fixed amount established for the fiscal year, which is recognized ratably throughout the year. The energy component is based on a per-unit generation amount, and is recognized as generation occurs. As of September 30, 2012 and 2011, the Agency had outstanding receivable balances related to Member Cities' electricity sales of $5.2 million and $6.4 million, respectively. Transmission revenues are determined by the PUCT annually based on regulatory filings and are recognized ratably throughout the year by the Agency.

The Agency distinguishes between operating and non-operating revenues and expenses consistent with the criteria used to identify cash flows from operating activities in the Statement of Cash Flows. Generally, the Agency classifies revenues generated from power sales and transmission usage along with ancillary services as operating revenues. Fuel, production operating and maintenance, transmission operating and maintenance, general and administrative, transmission system access fee, depreciation on the Agency's electric plant assets, and renewals and replacements expense are classified as operating expenses. All other income and expenses, including refunds to Member Cities, investment revenues, deferred revenues, interest expense, amortization of deferred debt cost, and amortization of deferred expenses to be recovered in the current year are considered non-operating activity.

Transmission System Access Fee

The PUCT sets rates for wholesale transmission services within ERCOT. TMPA pays the cost of delivery of its power to the Member Cities based on those rates. Prior to FY 2012, the transmission system access fee was referred to in the TMPA financial statements as Postage Stamp Expense as it is commonly referred to by the PUCT.

Deferred Expenses to be Recovered in Future Years

TMPA is subject to the accounting requirements of FASB Accounting Standards Codification Section 980-340 "*Regulated Operations - Other Assets and Deferred Costs*". Accordingly, certain costs may be capitalized as deferred assets that would otherwise be charged to expense. Such deferred assets are recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates. Types of costs deferred include depreciation, zero coupon bond interest, debt issuance costs, losses resulting from debt restructuring, other postemployment benefits, and write-downs of debt-financed capital assets. Recovery of costs will be through Member City power and energy components such as debt service principal payments, zero coupon bond interest payments, and commercial paper payoff. Estimated mine reclamation costs will be recovered through fiscal budget components. Estimated completion for most reclamation activity is 2016.

Deferred Revenues to be Recognized in Future Years

As noted above, TMPA is subject to the Accounting requirements of FASB Accounting Standards Codification Section 980-340 "Regulated Operations – Other Assets and Deferred Costs". Accordingly, current receipts provided for certain costs that are expected to be incurred in the future are required to be recorded as deferred revenues. These revenues are charged to income when the associated expenses are incurred. As of September 30, 2012, deferred revenues consisted of the Member Cities' prepayments of their contractual obligations for power received from the Agency. The recovery period for the deferred revenues will extend to 2018.

Debt-Related Costs

Bond premiums and discounts are amortized over the terms of related bond issues under the interest method.

Issuance expenses are amortized using the straight-line method, which approximates the interest method, over the term of the bond issue.

Excess cost on advance refunding of debt is amortized using the straight-line method over the term of the bond issue.

Statements of Cash Flows

The Agency considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Net Assets

GASB 34 requires governmental entities maintaining a proprietary fund to present net assets as the difference between assets and liabilities. Net assets are displayed in three components -

invested in capital assets net of related debt, net assets restricted for insurance claims, and unrestricted net assets.

Components of investments in capital assets net of related debt include electric plant and intangible assets net of depreciation, which are reduced by outstanding bond and commercial paper liabilities related to those assets. The outstanding liabilities are calculated net of the investments included in restricted assets.

Net assets restricted for insurance claims are comprised of current and noncurrent cash and investments, restricted for insurance claims.

Unrestricted net assets are comprised of those assets and liabilities that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

3. Restricted Assets

Restricted assets include those assets comprising the Bond, Reserve, Contingency, Junior Subordinate Construction Bond, Subordinate Lien Bond, Subordinate Lien Reserve and Risk Management Program funds, which are principally established and maintained pursuant to the Resolutions. Substantially all assets in the Bond and Reserve Funds are available only to meet the principal and interest payments on the Revenue Bonds. Assets in the Contingency Fund are for use in paying extraordinary or unusual costs.

Junior Subordinate Construction Bond Fund assets are for use in paying for the design and construction of improvements to the Agency’s electric transmission system and to pre-fund interest during the construction period. Subordinate Lien Bond Fund and Subordinate Lien Reserve Fund assets are for use in paying the interest and principal of outstanding previously issued Subordinate Lien Bonds and outstanding Series 2010 Bonds. Assets in the Risk Management Program Fund are available to pay certain claims and losses and to reimburse the Agency for certain administrative costs of the Risk Management Program.

The aggregate amount in each of these funds as of September 30 is as follows (in thousands):

Fund Type:	2012	2011
Bond Fund	$ 31,194	$ 21,989
Reserve Fund	103,360	103,313
Contingency Fund	2,020	2,016
Junior Subordinate Construction Bond Fund	1	1
Subordinate Lien Bond Fund	683	1,620
Subordinate Lien Reserve Fund	7,888	7,919
Risk Management Program	11,061	9,533
Total Funds	$ 156,207	$ 146,391

4. Investments

The Agency’s portfolio is invested in fixed-income securities as approved in the Resolutions and the Contract. The investment securities include U.S. Treasury obligations, U.S. Government Agency and government-sponsored corporation obligations, and commercial paper. For its short-term liquidity needs, the Agency invests in the Texas Local Government Investment Pool ("TexPool"), a local government investment pool.

TMPA’s investments, with the exception of TMPA’s holdings in TexPool, are registered or held by TMPA or its Agent in TMPA’s name. TexPool is not managed by the Agency and the Agency does not possess securities that exist in either physical or book entry form. Under the Texas Public Funds Investment Act, government investment pools must maintain an AAA or equivalent rating from at least one nationally recognized rating agency. Standard & Poor's currently rates TexPool AAAm.

The Agency's investment portfolio, which is stated at fair value as of September 30, 2012, is as follows (in thousands):

Investment Type:	2012 Fair Value	2011 Fair Value
U.S. Treasury Securities	$ 2,104	$ 7,514
Fannie Mae	52,639	20,522
Federal Home Loan Mortgage Corp	39,475	19,318
Federal Home Loan Bank	4,997	14,998
Federal Farm Credit Bank	-	18,498
Municipal Bonds	1,014	-
Money Market Funds	5,290	-
Commercial Paper	7,119	1,997
Investment Portfolio Net of TexPool	112,638	82,847
Investment Pools - TexPool	53,968	81,739
Total Investment Portfolio	$ 166,606	$ 164,586

Interest Rate Risk

The Agency minimizes the risk associated with the decline in market value of securities due to rising interest rates (interest rate risk) by maintaining a "buy and hold" strategy, whereby securities are purchased with the intent to hold the securities in the portfolio until maturity. The Agency does not participate in derivatives to hedge interest rate risk or any other risk.

Credit Risk and Concentration of Credit Risk

In accordance with the Agency's investment policy and the Texas Public Funds Investment Act, the Agency manages credit risk through portfolio diversification. The investment portfolio is diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer. The Agency's investment policy limits investments to obligations of the United States of America and its agencies, investment quality obligations of states, agencies, counties, cities, and other political subdivisions of any state, fully insured Certificates of Deposit, and commercial paper that has maturity of 270 days or less and a rating of A-1 or P-1. The Agency's investments in the bonds of U.S. agencies were rated AAA by Fitch Ratings, AA+ by Standard and Poor's, and Aaa by Moody's Investor Service.

Custodial Risk

This is the risk that in the event of a bank or counterparty failure, the Agency's deposits or investments may not be returned. The investment policy states that all bank deposits of Agency funds be secured by pledged collateral with a market value equal to no less than 102 percent of the principal plus accrued interest less an amount insured by FDIC. Investment securities are delivered-versus-payment to the Agency's bank for safekeeping as evidenced by safekeeping receipts issued by the bank.

Deposits

The bond resolutions require that deposits be placed in a bank or trust company organized under the laws of the State of Texas or a national banking association located within the State of Texas. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") or collateralized by U.S. Government obligations or its Agencies and Instrumentalities; or direct obligations of Texas or its Agencies or Instrumentalities that have a market value of not less than the principal amount on deposit and rated "A" or better by Moody's or Standard and Poor's. The pledged collateral was held at the Federal Home Loan Bank of Dallas under a joint safekeeping account with the Agency's deposit institution in the Agency's name. At year-end, the Agency's deposits at Wells Fargo Bank N.A. were entirely covered by federal depository insurance or by collateral held by the Agency's custodial bank (Federal Home Loan Bank, Dallas, Texas).

As of September 30, 2012 and 2011, TMPA had recorded cash deposits of $3.19 million and $1.01 million, respectively. Bank statement balances as of September 30, 2012 and 2011 were $1.52 million and $1.36 million, respectively, with the differences being comprised of outstanding checks and deposits in transit.

5. Risk Management Program

The Risk Management Program was established in July 1987 and funded through the sale of $20,480,000 Series 1987A Revenue Bonds. These bonds were refunded by the Series 1993A bonds which matured September 1, 1997. The Risk Management Program has been extended through July 1, 2018 by Board Resolution. The initial capitalization requirements were determined on an actuarial basis, and each year an actuarial study is prepared by a professional actuary as discussed below. In addition to the initial funding, TMPA has purchased commercial insurance to cover certain property and liability risks. The Risk Management Program does not include health and dental care coverage described in Note 8. TMPA is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

Under the Board Resolution establishing the Risk Management Program, withdrawals for the payment of claims (exclusive of defense costs which are not covered by any maximum on withdrawals from the fund) may not exceed maximum amounts as follows:

Type of Claim	Maximum Amount
Corporate general liability claims arising from one occurrence	$1 million
Assumed general liability claims arising from one occurrence	$1 million
Aggregate of corporate and assumed general liability claims per fiscal year	$3 million
Property losses arising from one occurrence	$5 million
Aggregate of property losses per fiscal year	$5 million, or such larger amount that does not render the Program actuarially unsound

Any claims or damages above self-insured amounts are covered by commercial insurance. There were no changes in the level of commercial insurance from the previous year. Since inception of the program, no settlements have exceeded insurance coverage.

Effective October 1, 1995, the Agency adopted GASB Statement No. 30, *Risk Financing Omnibus* ("GASB 30") which amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* ("GASB 10"). GASB 10 requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. GASB 30 further requires that claims liabilities include specific, incremental claim adjustment expenditures/expenses. In addition, estimated recoveries of settled and unsettled claims should be evaluated and deducted from the liability for unpaid claims. The Agency has included a liability of $700,000 and $1,156,000 in accounts payable at September 30, 2012 and September 30, 2011, respectively, based on the requirements of GASB 10 and GASB 30.

The liability for unpaid claims of $700,000 as of September 30, 2012 consists of Incurred But Not Reported ("IBNR") Reserves. Property claims comprise $360,000 of IBNR and general liability comprises $340,000 of IBNR.

The IBNR is computed in accordance with accepted actuarial standards and principles, and makes a reasonable provision for all unpaid losses and loss expense obligations of the Agency.

Changes in the claims liability amount were as follows (in thousands):

Fiscal Year	**Beginning Liability**	**Claims and Changes in Estimates**	**Claim Payments**	**Ending Liability**
2012	$ 1,156	$ 188	$ (644)	$ 700
2011	514	885	(243)	1,156
2010	594	(80)	-	514
2009	690	(96)	-	594

6. Long-Term Debt

The Agency's long-term debt consists of the following at September 30, 2012 (in thousands):

	Outstanding October 1, 2011	Issued / Increased	Redeemed / Decreased	Accretion / Amortization Premium / Discount	Outstanding September 30, 2012	Principal Due Within One Year
Revenue Bonds Series						
1989	$ 6,170	$ -	$ (6,170)	$ -	$ -	$ -
1993	150,713	-	-	-	150,713	30,140
2008	37,766	-	-	(179)	37,587	-
2010	126,843	-	(2,095)	(541)	124,207	2,160
Total Revenue Bonds	321,492	-	(8,265)	(720)	312,507	32,300
Zero Coupon Interest Payable						
1989	23,933	-	(25,990)	2,057	-	-
1993	303,087	-	-	28,243	331,330	65,728
Total Zero Coupon Interest Payable	327,020	-	(25,990)	30,300	331,330	65,728
Non-Taxable Commercial Paper	210,100	7,400	(4,500)	-	213,000	-
Total Long-term Debt	$ 858,612	$ 7,400	$ (38,755)	$ 29,580	$ 856,837	$ 98,028

Revenue Bonds outstanding, as of September 30, 2012 and September 30, 2011, respectively, are (in thousands):

Series	Current Amount Outstanding 2012	Long-Term Amount Outstanding 2012	Maturity From	Maturity To	Range of Interest Rates From	Range of Interest Rates To	Earliest Redemption Date
1993	30,140	120,573	2013	2017	6.100	6.150	2013
2008	-	36,835	2017	2017	4.881	4.881	2017
2010	2,160	118,120	2012	2040	3.000	5.000	2012
Total	$ 32,300	$ 275,528					

Series	Current Amount Outstanding 2011	Long-Term Amount Outstanding 2011	Maturity From	Maturity To	Range of Interest Rates From	Range of Interest Rates To	Earliest Redemption Date
1989	$ 6,170	$ -	2011	2012	7.350	7.350	2011
1993	-	150,713	2013	2017	6.100	6.150	2013
2008	-	36,835	2017	2017	4.881	4.881	2017
2010	2,095	120,281	2012	2040	3.000	5.000	2012
Total	$ 8,265	$ 307,829					

Debt service requirements for the revenue bonds for the next twenty-eight years as of September 30, 2012, are as follows (in thousands):

Year	Principal	Interest	Total
2013	$ 32,300	$ 78,780	$ 111,080
2014	33,722	88,402	122,124
2015	33,849	96,665	130,514
2016	32,112	98,400	130,512
2017	67,330	100,024	167,354
2018	2,675	5,313	7,988
2019	2,785	5,206	7,991
2020	2,925	5,067	7,992
2021	3,070	4,921	7,991
2022	3,225	4,767	7,992
2023	3,385	4,606	7,991
2024	3,555	4,437	7,992
2025	3,730	4,259	7,989
2026	3,880	4,110	7,990
2027	4,075	3,916	7,991
2028	4,280	3,712	7,992
2029	4,490	3,498	7,988
2030	4,715	3,274	7,989
2031	4,930	3,062	7,992
2032	5,150	2,840	7,990
2033	5,410	2,582	7,992
2034	5,680	2,312	7,992
2035	5,965	2,028	7,993
2036	6,260	1,730	7,990
2037	6,575	1,417	7,992
2038	6,900	1,088	7,988
2039	7,245	743	7,988
2040	7,610	380	7,990
	307,828	$ 537,539	$ 845,367
Unamortized Discount/Premium	4,679		
Total	$ 312,507		

TMPA has three refunding bond issues outstanding - the 1993, the 2008, and the 2010 Series Revenue Refunding Bonds. Proceeds from the refunding bond issues are irrevocably deposited with escrow agents and used to purchase U.S. Government obligations which will mature at such time and yield interest at such amounts so that sufficient monies are available for payment of principal and interest on the refunded bonds when due.

Certain Bonds are subject to optional redemption prior to their scheduled maturity date without additional cost and certain bonds can be redeemed subject to stated call premiums.

The Resolutions contain certain restrictions and covenants including TMPA's covenant to establish and maintain rates and other charges to produce revenues sufficient to pay operating and maintenance expenses (exclusive of depreciation and amortization), to produce net revenues sufficient to pay the amounts required to be deposited in the debt service funds, and to produce net revenues equal to at least 1.25 times the annual debt service to be paid for the then outstanding bonds.

Zero coupon interest payable of approximately $331,330,000 through September 30, 2012 has been deferred and is being recovered through the debt service component of rates.

The proceeds from excess TCOS revenues collected in accordance with PUCT Docket 21711 were used to defease the Series 1989 and 1993, and were placed in an irrevocable trust to provide for all future debt service for the defeased bonds. The trust account assets and the liability for the defeased bonds are not included in the basic financial statements. As of September 30, 2012, the outstanding balances of these defeased bonds were as follows:

Series 1993 Revenue Refunding Bonds	$12,870,000

7. Tax-Exempt Commercial Paper Program

TMPA is authorized to issue tax-exempt commercial paper in the principal amount not to exceed $255,000,000 (the "Series 2005 Notes"), of which $213,000,000 is outstanding at September 30, 2012.

The Series 2005 Notes are issued in denominations of $100,000 or more with maturities not to exceed 180 days from date of issue. The final maturity date for the Series 2005 Notes cannot extend beyond September 1, 2018. Interest rates during 2012 and 2011 ranged from 0.06% to 0.35% and from 0.11% to 0.35%, respectively.

Under the Series 2005 Resolution, the Series 2005 Notes are special obligations of the Agency payable from and secured by a pledge of available revenues and the Note Payment Fund; provided, however, that such pledge is and shall be subject and subordinated to first and prior lien of TMPA's outstanding previously issued bonds and any additional bonds. TMPA agrees and covenants that at all times it will maintain credit facilities with banks in amounts sufficient to pay principal on the Series 2005 Notes.

The Series 2005 Notes were secured by an Irrevocable Direct-Pay Letter of Credit issued by JP Morgan and Bank of America, with terms that TMPA may borrow up to $255,000,000 on a revolving basis until April 26, 2013, unless extended by the Banks. The liability of each Bank is several, not joint. Under this agreement, TMPA pays a commitment fee of 0.85% per annum on the banks' commitment and was obligated to pay interest on any borrowings at the base rate, as defined in the agreement, of 7.50% at September 30, 2012, with a maximum rate not to exceed that allowed by law.

Principal debt payments on existing tax-exempt commercial paper as of September 30, 2012 are scheduled as follows (in thousands):

Year	Type	Principal
2018	Tax-Exempt Commercial Paper	$ 213,000

8. Employee Benefit Plans

Defined Contribution Plan

TMPA has a defined contribution retirement plan covering all full-time employees which requires TMPA to contribute an amount equal to 10% of gross wages to a third party trustee for the benefit of plan participants ("the Plan"). Chapter 810, Government Code, and other state laws relating to political subdivisions such as the Agency, authorize the establishment and amendment of a pension plan by the Agency's Board of Directors. The Plan is administered by the TMPA Employees Pension Plan Administrative Committee. Employees may contribute, on a voluntary basis, an additional amount up to 50% of earnings. Employees direct both their employer and employee investments based on investment options available to them in the Plan. Vesting, with respect to employer contributions, is based on years of continuous service where participants become vested at 20% per year of credited service up to 100%. Participants are immediately vested in their voluntary contributions plus actual earnings thereon.

Retirement plan costs for 2012 and 2011 were as follows (in thousands):

	2012	**%**	**2011**	**%**
Agency's total payroll	$12,630	-	$14,777	-
Agency's covered payroll	$11,368	100%	$14,272	100%
Agency's contribution	$1,137	10%	$1,426	10%
Employees' contribution	$23	.20%	$28	.20%

Loan provisions, which were established in 1999, provide that employee loans from the employee's employer-contribution account ("Account") may not exceed the lesser of $50,000 or 50% of the present value of the employee's vested Account. Loan repayment is generally within a 1-5 year timeframe with specific use qualifications for payback periods up to fifteen years. Loan interest rates are established according to loan provision guidelines.

Deferred Compensation Plan

In November 1997, the Board of Directors adopted an Internal Revenue Code Section 457 deferred compensation plan for Agency employees. This plan is in the form of the ICMA Retirement Corporation Deferred Compensation Plan and Trust and is administered by the ICMA Retirement Corporation. The funds held under this plan are invested in the ICMA Retirement Trust; a trust established by public employers for the collective investment of funds held under their retirement and deferred compensation plans. The Agency serves as trustee for the plan, with the General Manager as the coordinator. Employees may contribute up to 100% of pre-deferral taxable income to a maximum of $17,000 and $16,500 for calendar years 2012 and 2011, respectively. A "catch-up" provision, which allows an additional contribution of $5,500 for 2012 and 2011, is available for employees over 50 years of age. Employees direct the investment allocation, contributions and payout option of their individual plans. For the years ended September 30, 2012 and 2011, participants numbered 56 and 59 and participant contributions were $440,898 and $384,091, respectively.

Other Postemployment Benefits

Texas Municipal Power Agency Postemployment Benefits Plan is a single employer plan that covers all full-time, regular employees. The plan is a defined contribution benefit plan and the cost for each employee is paid on a pay-as-you-go basis. Benefits for retirees consist of medical, dental, and life insurance coverage and are referred to as Other Postemployment Benefits (OPEB). Employees are eligible for normal retirement at age 65 or early retirement at age 55 with 20 years of service or age 60 with 10 years of service. The Agency does not issue a publically available actuarial report of its plan.

In 2008, the Agency adopted GASB Statement No. 45 *("GASB 45") Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB 45 recognizes the cost of benefits in periods when the related services are received by the employer, requires information about the actuarial accrued liabilities for promised benefits associated with past services, and whether and to what extent those benefits have been funded.

For active and retired employees in 2012, the Agency paid 100% of the cost of life insurance, and 71% and 71% of the cost of employee medical and dental benefits, respectively. For 2011, the

Agency paid 100% of the cost of life insurance, and 73% and 69% of the cost of employee medical and dental benefits, respectively. For retirements prior to January 1, 2002, life insurance coverage is reduced to 65% of the covered amount once retiree reaches age 65. Upon retiree reaching age 70, life insurance coverage is reduced to $2,000. For retirements, effective after January 1, 2002, life insurance coverage is $5,000 at time of retirement reducing to $2,000 once retiree reaches age 70. At age 65, Medicare becomes the primary medical carrier for the retiree and the Agency's plan becomes secondary.

The Agency's OPEB cost is calculated based on the Annual Required Contribution (ARC) of the employer. The ARC is determined as the actuarially determined funding amount for the year employing an approved cost method and, if applicable, a companion amortization method. The Agency has chosen to use the Aggregate Cost Method which does not require an explicit companion amortization method. Under the Aggregate Cost Method, all of the unfunded projected liability for future OPEB for active and retired employees, whether attributable to past or future service, is recognized pro-rata through each year's normal cost determination, which is calculated to be a level dollar amount per year per active participant.

Because the Aggregate Cost Method does not identify or separately amortize unfunded actuarial accrued liabilities, information about the funded status and funding progress is presented using the Entry Age Actuarial Cost Method and is intended to serve as a surrogate for the funded status and funding progress of the plan.

The following table shows the components of the Agency's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Agency's net OPEB obligation:

Annual Required Contribution	$	3,654,453
Interest on net OPEB obligation		336,916
Adjustment to annual required contribution		(1,554,372)
Annual OPEB expense		2,436,997
Contributions made		(311,268)
Increase in net OPEB obligation		2,125,729
Net OPEB obligation - beginning of year		9,628,189
Net unfunded OPEB obligation - end of year	$	11,753,918

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the preceding years is as follows:

Fiscal Year Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
9/30/2010	$2,710,842	8.3%	$7,546,612
9/30/2011	$2,321,025	10.3%	$9,628,189
9/30/2012	$2,436,997	12.8%	$11,753,918

The Agency is required to obtain a complete actuarial evaluation every three years as long as it has less than 200 employees and provided significant changes have not occurred that would affect the result of the last evaluation. No significant changes occurred since the last complete actuarial evaluation prepared as of October 1, 2010. The actuarial accrued liability for benefits was $11,753,918 and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of $11,753,918. The covered payroll (annual payroll of active employees covered by the plan) was $11,368,000, and the ratio of the UAAL to the covered payroll was 103.4%. Refer to Required Supplementary Information.

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. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Annually, under the Aggregate Cost Method, a series of annual contributions are identified that, along with current assets and future investment earnings, will fund the expected plan benefits. The investment return rate assumed was 3.5%, which was also the discount rate assumed for liabilities. The inflation rate assumed was 2.5%. The preretirement, postretirement, and post-disability rates were obtained from Separate Annuitant/Non-Annuitant Static Tables under Regulation §1.430(h)(3)-1 in effect for 2010 plan years. Medical care cost trend rates assumed were 8.5%, 8%, 7.5%, 7%, 6.5%, 6%, 5.5%, and 5% for fiscal years 2012, 2013, 2014, 2015, 2016, 2017, 2018, and 2019 and beyond, respectively. Dental care cost trend rates assumed were 5% for 2012 and beyond.

In accordance with rate making methodology, the cost of this Program is unfunded until benefits are needed. Thus, unfunded expenses are treated as “Deferred Expenses to be Recovered in Future Years” similar to other long-term obligations.

There were 48 and 47 retired participants as of September 30, 2012 and 2011, respectively.

Medical and Dental Benefits

The Agency’s medical and dental plan, which is not a component of the Agency’s Risk Management Program, is administered by a large insurance company. Effective October 1, 2008, the Agency began a fully insured program where costs are based on fixed monthly premiums and fluctuate only when participant numbers change. In 2012, $2,102,855 was paid in medical expenses based on an average of 177 participants. Participant medical premiums collected by the Agency in 2012 were $600,142 resulting in a total cost to the Agency of $1,502,713. Dental expenses paid in 2012 totaled $91,599 based on an average of 163 participants. Participant dental premiums collected were $26,286, resulting in a total cost to the Agency of $65,313.

Retirement Health Savings Account

Retirement Health Savings Account (“RHSA”) is a health savings vehicle that allows employees to accumulate assets to pay for postretirement medical expenses on a tax-free basis. TMPA adopted the Plan effective January 1, 2004.

Initially, several options were available for funding the RHSA. Effective January 1, 2008, the IRS eliminated the elective features of all RHSA Plans and the Agency’s plan was amended accordingly. Since that amendment, all employees whose accrued sick leave balance at calendar year-end combined with the 80 hours to be accrued over the upcoming calendar year, will have 50% of the value of the excess hours greater than 520 deposited into their RHSA account.

Compensated Absences

TMPA accumulates sick and vacation time for all full-time employees, of which only earned vacation leave is recorded as a liability and reported as part of accrued compensation and pension benefits along with certain salary-related expenses. TMPA pays accumulated vacation upon termination, but since TMPA does not pay employees for unused accumulated sick leave upon termination, no related liability is recorded. A summary of changes in accrued vacation for the year ended September 30, 2012 is as follows (in thousands):

Beginning Liability	PTO Accrued	PTO Taken	Ending Liability
$ 741	$ 1,293	$ (1,474)	$ 560

Incentive Plan

In 2000, TMPA adopted an incentive-based compensation plan for which participants may receive additional income based upon the achievement of certain performance goals. Recorded costs were $2,353,000 and $1,326,754 for the years ended September 30, 2012 and 2011, respectively.

9. Commitments and Contingencies

A. In connection with a court settlement entered into on July 19, 1978, TMPA is obligated to make certain payments to Grimes County and three school districts as long as the Gibbons Creek Steam Electric Station is in operation. The aggregate amount of these payments were $879,991 in 2012 and $942,610 in 2011.

B. During fiscal year 1995, TMPA authorized the conversion of its fuel source from locally-mined lignite to sub-bituminous coal from the Powder River Basin ("PRB"). TMPA commenced construction of the necessary rail loop and receiving operation in fiscal year 1995 and converted to PRB coal in fiscal year 1996. In connection with this conversion, some of TMPA's plant and mine-related assets were impaired. Impaired assets have been written-down to their net realizable value. In addition, TMPA recorded an accrual for reclamation costs related to the lignite mine operations and updates this accrual for changes in estimates of the expected ultimate liability.

C. Due to low prices for gas-fired generation in the ERCOT wholesale electric market, the Gibbons Creek Steam Electric Station was dispatched less frequently in 2012 than anticipated, and the unit spent much of 2012 in "reserve shutdown" mode. As a result, TMPA experienced difficulty meeting its minimum volume requirements under its coal supply agreements with Western Fuels-Wyoming, Inc. and Arch Coal Sales Company. In September 2012, a settlement was reached with Western Fuels in relation to the minimum volume commitment, which settlement terminated TMPA's obligation to purchase additional volumes of coal from Western Fuels. In regard to the one remaining coal supply agreement, with Arch Coal Sales Company, the parties are in negotiations concerning a restructuring of the coal supply agreement. The agreement with Arch Coal Sales Company currently covers the period 2010 through 2014, and provides for a supply of coal from the Coal Creek Mine in Wyoming.

D. In 2003, the Surface Transportation Board issued an order prescribing rates governing coal transportation services provided to TMPA by the BNSF Railway. In 2004, the Surface Transportation Board amended the order. In the Fall of 2010, a dispute arose between TMPA and the BNSF Railway concerning the term over which the rate prescription remained in effect. TMPA was of the view that the term remained in effect until March 31, 2021. BNSF Railway was of the view that the term expired on December 31, 2010. In December 2010, after BNSF established a new tariff for service commencing on January 1, 2011, TMPA filed a petition with the Surface Transportation Board to enforce the order to 2020. On July 27, 2011, the Surface

Transportation Board issued an order declaring that the prescribed rate had expired on December 31, 2010. On August 16, 2011, TMPA filed a motion for reconsideration of the Surface Transportation Board's decision, which motion was denied on January 20, 2012.

On February 10, 2012, TMPA filed a petition for review of the Surface Transportation Board's decision with the United States Court of Appeals for the D.C. Circuit, which appeal remains pending.

On April 20, 2012, TMPA filed in the Surface Transportation Board a petition to re-open and modify the 2003/2004 Surface Transportation Board rate prescription. This petition, which remains pending, seeks to extend the rate prescription to 2021.

During calendar year 2011, TMPA paid BNSF Railway at the rates established in the 2003/2004 order, and not at the higher rates charged by BNSF Railway commencing on January 1, 2011. As of September 30, 2012, TMPA recorded a liability for the difference between the rates charged and the rates actually paid of $9.0 million (the "Alleged Shortfall Amount"). In calendar year 2012, TMPA began paying under protest 100% of the amount invoiced by BNSF Railway.

On June 20, 2012, BNSF Railway filed a petition against TMPA to collect the Alleged Shortfall Amount in the United States District Court for the Western District of Texas. TMPA has filed an answer, a counterclaim for amounts paid in excess of reasonable rail rates, and a motion to refer the rate reasonableness issue to the Surface Transportation Board. TMPA's motion to refer the rate reasonableness issue to the Surface Transportation Board remains pending.

The parties are currently engaged in commercial negotiations that are expected to result in resolution of all outstanding issues.

E. In 1997, TMPA began to include in its budgets and rates the wholesales transmission rates established by the PUCT and associated with the delivery of power and energy from Gibbons Creek to the Member Cities. Bryan disputed this action and began withholding from its payments to TMPA the amount in dispute. In 1998, to recover the amounts in dispute, TMPA filed suit in state district court in Grimes County, Texas (the "Grimes County Suit").

Also in 1998, Bryan filed a complaint in the PUCT, against TMPA, Denton, Garland, and Greenville, arguing that Bryan was entitled to receive unbundled transmission service from TMPA. In 1999, the PUCT ordered TMPA to provide unbundled service. Also, between and including 1999 and 2007, the PUCT ordered TMPA to provide unbundled transmission service to Bryan in its annual order setting ERCOT-wide wholesale transmission rates. TMPA appealed all of these PUCT cases to the courts (the "PUCT Cases").

In 2007, the Texas Supreme Court issued a decision in two of the PUCT Cases, holding that the PUCT was without statutory authority to order TMPA to provide unbundled transmission service and that such action by the PUCT unlawfully interfered with the Contract.

In 2008, TMPA adopted a bond resolution for the issuance of debt to refund certain obligations and to fund the construction of the scrubber refurbishment project. Bryan filed suit in Brazos County, Texas, on various grounds, challenging the validity of the bond resolution. TMPA filed a bond validation suit in Travis County, Texas, to which Bryan's claims in the Brazos County case were transferred (the "Bond Validation Suit").

Effective December 17, 2009, TMPA and the Member Cities settled all of the above disputes by entering into a Global Compromise Settlement Agreement. Pursuant to the Global Compromise Settlement Agreement, the following matters have been implemented:

1. The Bond Validation Suit and the Grimes County Suit have been dismissed. The PUCT Cases have been remanded to the PUCT for reissuance of agreed orders that are neutral on the issue that had been in dispute.

2. The parties have agreed that TMPA will provide bundled transmission service to all Member Cities while the Power Sales Contract remains in effect, and that TMPA will provide unbundled service thereafter.

3. The Member Cities have issued debt (i) to provide $98,500,000 for TMPA's scrubber refurbishment project and (ii) to refinance $56,935,000 of TMPA's Series 2003 Subordinate Lien Bonds, $77,335,000 of TMPA's Series 2004 Subordinate Lien Bonds, and $61,385,000 of TMPA's Series 2004A Subordinate Lien Bonds.

4. TMPA and the Member Cities have, effective June 24, 2010, amended the Power Sales Contract to permit the issuance by TMPA of transmission debt without extending the term of the Contract. On that same date, TMPA's Board of Directors adopted a bond resolution for the issuance of TMPA's first series of transmission debt, the Series 2010, Subordinate Lien Revenue/Transmission Revenue Converting Security Refunding Bonds. The Series 2010 Bonds, which mature on September 1, 2040 and which were in the par amount of $122,375,000, were delivered on August 30, 2010. Following the date all non-transmission debt is paid and the Power Sales Contract expires, currently anticipated to be September 1, 2018, the Series 2010 will be payable solely from revenues of TMPA's transmission system.

5. TMPA and the Member Cities have agreed that, except for transmission debt, TMPA will not issue bonds without obtaining the consent of the Member Cities.

F. The Contract requires the Board to approve, by a super-majority vote, a decision to retain, and not refund to the Member Cities, an amount of excess funds greater than 3.5% of the Annual System Budget. A super-majority vote is also required to use excess funds for debt retirement. A super-majority vote requires at least six affirmative votes plus the affirmative vote of at least one Board Member from each Member City. Through super-majority votes taken at Board Meetings held on March 11, 2010, and May 13, 2010, the Board authorized the retention of $19.1 million of excess funds. Pursuant to the Board authorization, $6,051,750 of these funds were used in August 2010 to pay off all of TMPA's outstanding Taxable Commercial Paper Notes, and the remainder of these funds, together with other revenues to be collected in the future, will be used in 2014 to pay debt service on Prior Lien Bonds.

G. In connection with the Gibbons Creek Lignite Mine, TMPA is self-bonded for approximately $12,500,000 and has irrevocable letters of credit in the amount of approximately $27,800,000 outstanding, which ensure that TMPA will reclaim all lands disturbed by mining operations in accordance with all applicable Federal and State laws relating to surface mining.

H. During 1999, the Texas Legislature enacted legislation, SB 7, implementing retail competition in the electric utility industry commencing on January 1, 2002. Although participation by investor owned utilities in retail competition is required, participation by municipally owned utilities ("MOUS") is on a voluntary basis. Utilities which participate in retail competition, including MOUS which decide to participate in retail competition, are authorized to recover stranded costs, and may utilize securitization provisions contained in the legislation. Municipal Utilities and Electric Co-ops are not required to unbundle their generation functions from transmission and distribution functions into separate companies. Rates for wholesale transmission systems of Municipal Utilities and Electric Co-ops are determined by the PUCT. Rates for the use of the distribution systems of such entities are determined by such entities. As of September 30, 2012, none of the Member Cities have elected to open their service territory to retail competition, but the respective Member Cities could determine to make such election in the future.

SB 7 also contains provisions which provide assurance that the legislation will not "interfere with or abrogate the rights or obligation of parties...to a contract with a municipally owned utility". In light of such assurance in the legislation, relevant provisions of TMPA's enabling legislation, the judicial validation of the Power Sales Contract in 1997, and other pertinent considerations, TMPA is of the view that SB 7 will have no adverse impact on the Member

Cities' obligations to TMPA under the Contract and therefore is not expected to have a material impact on TMPA's financial position, results of operations, or cash flows.

I. Effective October 13, 2003, the PUCT adopted Substantive Rule 25.501, which contemplated the development of a wholesale market design by ERCOT. Pursuant to that Rule, ERCOT developed, through a stakeholder process under the auspices of the Texas Nodal Team, a set of detailed protocols to govern the design and operation of a Nodal market (the "Nodal Protocols"). In August 2005, the PUCT established Docket 31540 (the "Nodal Docket") to consider approval of the Nodal Protocols. Because the Nodal Protocols raise concerns relating to, among others, the ability of TMPA to ensure that its Member Cities do not pay rates for wholesale power in excess of those set under the terms of its power sales contracts, TMPA intervened in the Nodal Docket.

On April 5, 2006, the PUCT adopted an order approving the Nodal Protocols. Because the order approving the Nodal Protocols does not, in TMPA's view, adequately address the concerns that TMPA had raised in the proceeding, TMPA, on June 15, 2006, appealed the PUCT order to State District Court. To date, no hearings have been conducted or decisions rendered in this proceeding.

Implementation of the Nodal Protocols commenced on December 1, 2010.

Because of provisions in the Public Utility Regulatory Act ("PURA") which protect MOUS contracts against interference by the PUCT, which protect MOUS against actions by the PUCT which would adversely affect the tax-exempt status of a MOUS debt, and similar protections afforded TMPA under State laws, this proceeding is not expected to have an adverse impact on the Member Cities' obligations to TMPA under the Power Sales Contract and therefore is not expected to have a material impact on TMPA's financial position, results of operations or cash flows.

J. The Energy Policy Act of 2005 authorized the North American Reliability Corporation ("NERC") to promulgate transmission reliability standards which, once approved by the Federal Energy Regulatory Commission ("FERC"), are enforceable by FERC, NERC, and, in Texas, by the Texas Reliability Entity, Inc. ("TRE"). NERC has promulgated reliability standards pursuant to this law and new standards are anticipated. NERC and TRE have enforcement powers to ensure compliance with these standards, including powers to impose administrative penalties. TMPA has implemented measures to comply with the existing standards and expects to remain in compliance as standards are promulgated in the future.

K. In the mid 1990's, TMPA anticipated moving its mining operations to an area east of FM 244 in Grimes County, Texas. In preparing for this "East Move", the Agency constructed an embankment for Sedimentation Pond 50 ("SP50"). After the SP 50 embankment was constructed, TMPA decided to switch fuels from locally mined lignite to Powder River Basin coal. As a result of this fuel switch, the East Move did not occur, and SP 50 was never filled with water up to its design capacity.

The construction of the SP 50 embankment resulted in some construction waste piles being left in the footprint of SP 50. Because the construction waste piles include coal and pyrites, the Texas Railroad Commission requires that the waste piles be either removed and disposed of or submerged by filling the pond to its design capacity, the latter being the most economical cost option for TMPA.

Filling SP 50 and submerging the waste piles will require that TMPA obtain inundation and flood easements from the adjacent property owner, Kirk Johnston. In January 2012, TMPA began negotiating with Mr. Johnston to acquire the necessary easements. Negotiations were not successful. On May 2, 2012, Mr. Johnston filed a lawsuit against TMPA for damages and to enjoin TMPA from exercising the power of eminent domain to acquire the necessary easements.

TMPA responded by filing an answer and a plea to the jurisdiction. In the plea to the jurisdiction, TMPA argued that the Court lacks jurisdiction to hear this lawsuit because the dispute is not ripe for adjudication and on grounds of governmental immunity. On August 27, 2012, the District Court denied TMPA's plea to the jurisdiction. On September 5, 2012, TMPA filed an accelerated appeal to the Texas Court of Appeals, Houston, Texas, where the appeal remains pending. The appeal has the effect of automatically staying all proceedings in the District Court.

10. 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 Gibbons Creek 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 regulations 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 Gibbons Creek. Significant changes to the CAA were made with the 1990 Amendments. The Gibbons Creek facility became subject to the sulfur dioxide ("SO_2") emission requirements but, based on the switch from lignite to Powder River Basin coal as a fuel, was able to reduce its SO_2 emissions and currently the Agency has sufficient SO_2 allowances for continued operation of the facility. Moreover, in keeping with its proactive strategy, TMPA has completed the refurbishment of the scrubber at Gibbons Creek to further reduce its SO_2 emissions. The refurbished scrubber became operational in April 2011.

The 1990 CAA Amendments also implemented more stringent rules designed to achieve compliance with the national ambient air quality standard for ozone. The Texas Commission on Environmental Quality ("TCEQ") concluded that emissions from electric utilities located in central and east Texas were contributing to ozone formation in three ozone non-attainment areas located in Texas: the Dallas-Fort Worth area, the Houston-Galveston-Brazoria area, and the Beaumont-Port Arthur area. As a result, on April 19, 2000, the TCEQ issued rules that required the reduction of nitrogen oxides ("NOx") emissions at large electric utilities located in 31 east and central Texas counties, including Grimes County. For coal-fired electric utilities, including Gibbons Creek, the combustion unit was required to achieve an emission rate of 0.165 pounds of NOx per million Btu of heat generated. Compliance with this standard was mandatory by May 1, 2005. To achieve this standard, Gibbons Creek used a phased approach. The initial two phases involved changes to the fuel and air supply systems to control the combustion process and to limit the formation of NOx in the boiler. These phases were completed following the spring 2002 outage. Completion of the third phase, the fine-tuning of the system, occurred in early 2003. No additional post-combustion controls have been necessary. The final cost of meeting the NOx standards was approximately $12 million.

In March 2005, the U.S. Environmental Protection Agency ("EPA") issued new air emission regulations. These were to provide more stringent standards for SO_2 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 SO_2 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 SO_2 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 SO_2 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 ("CO_2"). 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 CO_2 came into effect in 2011. TMPA is in compliance with the new rules and expects 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. TMPA has performed monitoring of fish impingement at the intakes for compliance with these regulations.

Other Environmental Matters

The Gibbons Creek Lignite Mine, which formerly was the fuel source for the Gibbons Creek Steam Electric Station, was closed in 1996. The reclamation of the mine site and the release of reclamation liabilities has been an ongoing activity since that time. Currently, field reclamation activities are almost complete. Major projects have included the reclamation of the last four dragline end pits completed in 2003, and the regrading of the last two box cut spoil areas completed in 2006. In fiscal year 2008, TMPA settled a long-standing dispute with the Brazos River Authority for water rights for ponds remaining at the Gibbons Creek Lignite Mine. This provides for the ponds to be left as permanent, which clears the way for final bond release. In fiscal year 2009, TMPA completed groundwater recharge studies for the whole mine and submitted this information for regulatory review and approval. In fiscal year 2010, TMPA applied for, and obtained, partial bond release on approximately 1,000 acres. In fiscal year 2011, TMPA applied for final bond release on another area of approximately 1,000 acres. This application has passed technical review at the Railroad Commission of Texas, the regulatory authority, and is being docketed for approval by the Commissioners.

Over the next four years, TMPA will continue to aggressively pursue bond release. It is projected that by 2016, most of the area will have been released from all reclamation obligations. In the meantime, land maintenance and mandatory long-term monitoring programs will continue to meet all permitting and regulatory requirements.

TEXAS MUNICIPAL POWER AGENCY

REQUIRED SUPPLEMENTARY INFORMATION

Texas Municipal Power Agency

Required Supplementary Information

Postretirement Benefits Plan

September 30, 2012

Schedule of Funding Progress - Employer Contributing

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded Actuarial Accrued Liablilities (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2012	October 1, 2010	$ -	$ 11,753,918	$ 11,753,918	0.00%	$ 11,368,000	103.39%
2011	October 1, 2010	$ -	$ 9,628,189	$ 9,628,189	0.00%	$ 14,272,000	67.46%
2010	October 1, 2007	$ -	$ 7,546,612	$ 7,546,612	0.00%	$ 12,885,000	58.57%
2009	October 1, 2007	$ -	$ 5,061,058	$ 5,061,058	0.00%	$ 12,003,000	42.16%
2008 (1)	October 1, 2007	$ -	$ 2,506,629	$ 2,506,629	0.00%	$ 10,454,000	23.98%

(1) GASB 45 was implemented prospectively in the fiscal year ended September 30, 2008. Actuarial information and annual OPEB costs are not available prior to that time.