Texas Municipal Power Agency
Financial Statements

For the Years Ended September 30, 2013 and 2012

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Texas Municipal Power Agency

Report on the Financial Statements

We have audited the accompanying statements of net position of Texas Municipal Power Agency (the Agency) as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

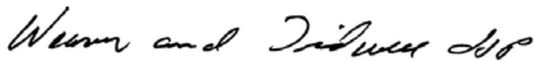
Opinions

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, 2013 and 2012, 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.

Other Matters

Required Supplementary Information

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 3 through 9 and page 43 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, L.L.P.

Dallas, Texas
November 26, 2013

Texas Municipal Power Agency
Management's Discussion and Analysis ("MD&A")
For the Years Ended September 30, 2013 and 2012
(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, which is essential to financial reporting and required by the Governmental Accounting Standards Board, in addition to the basic financial statements of the enterprise operation. TMPA's management encourages readers to refer to 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 Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows, and the related notes.

Financial and Operational Highlights for Fiscal Year Ended September 30, 2013

As discussed last year, 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 natural gas generation.

In contrast, FY 2013 saw rising natural gas and ERCOT wholesale power prices. Higher wholesale prices led to Gibbons Creek being utilized more and generation increasing 39% compared to FY 2012. TMPA Staff had anticipated being in reserve shutdown for the first quarter of FY 2013; however, prices rebounded sufficiently that the reserve shutdown did not occur. During the year, TMPA maintained high reliability, particularly over the peak demand periods in the summer.

In response to the uncertain ERCOT wholesale power prices, TMPA Staff negotiated changes to the long term contracts for coal supply and rail transportation to lower the commitments under the contracts in order to have more flexibility to respond to market conditions. These negotiations concluded successfully in 2013.

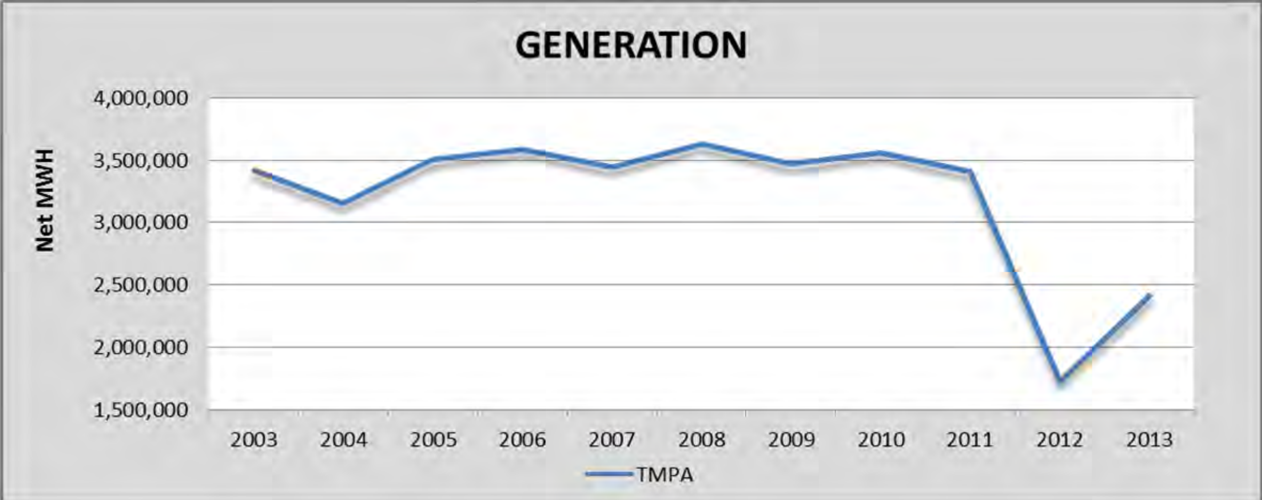
In April 2013, TMPA outsourced its transmission construction, operation, and maintenance functions to Garland Power & Light (GP&L). The purpose of the outsourcing was to combine duplicate functions between GP&L and TMPA. TMPA employees in the transmission function were transferred to GP&L.

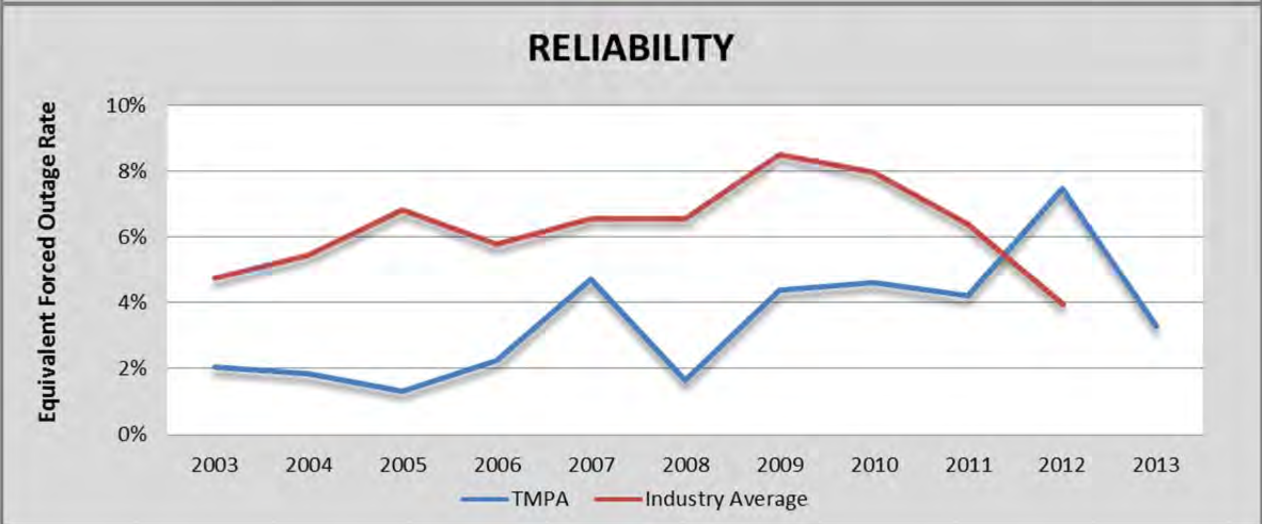
During the year, TMPA successfully completed two regularly scheduled transmission compliance audits with no violations.

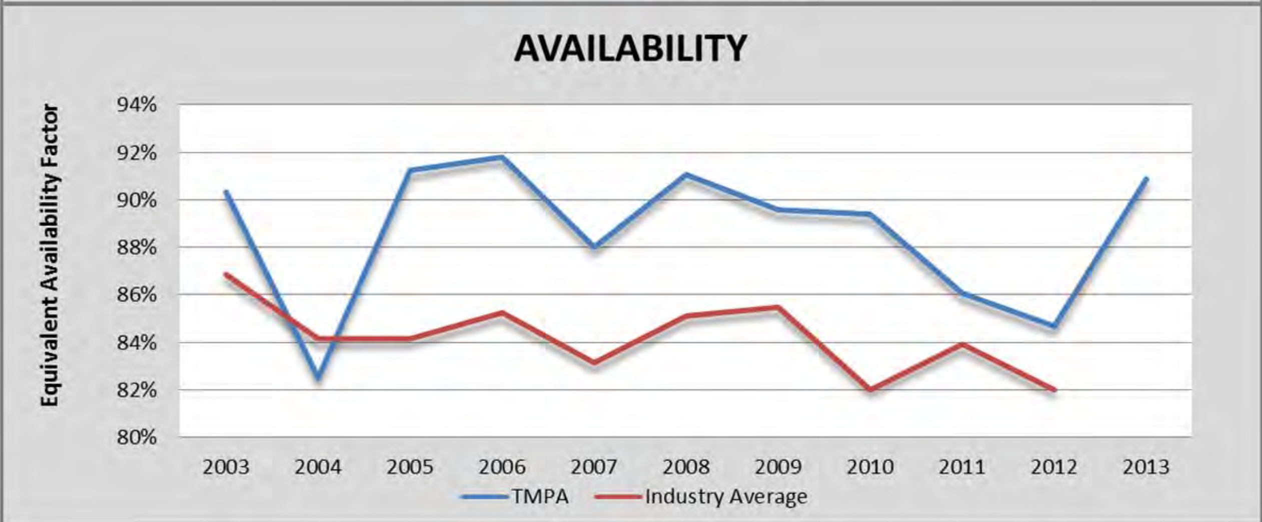
Also, in April 2013, TMPA issued Series 2013 Junior Subordinate Lien Revenue Refunding Bonds in order to refund a portion of its variable rate Tax-Exempt Commercial Paper (TECP). The purpose of the transaction was to lock in low interest rates and reduce the exposure to variable rate generation debt. With the transaction, the capacity of the TECP program was reduced from $255 million to $100 million.

Under the current debt structure, all generation debt will be paid off by September 1, 2018. 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 its 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 rates, and availability for the 10-year period ending FY 2013.



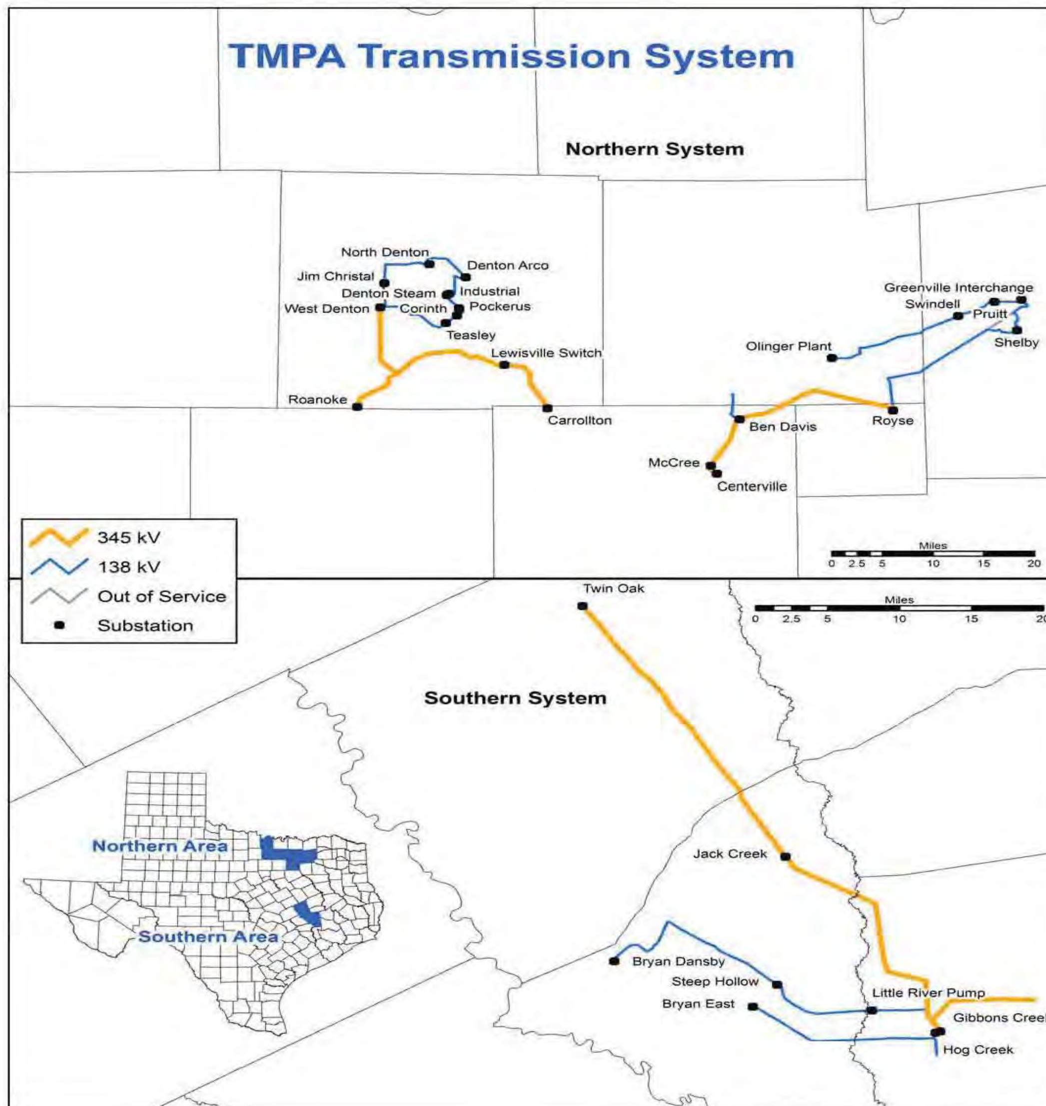




Industry averages are based on NERC GADS data for coal-fired units from 400 to 599 MW that are 22 to 38 years old, in order to capture a similar group of plants to which to compare Gibbons Creek's performance. GADS data is based on calendar years 2003-2012. Industry data is not available for 2013. TMPA data is based on fiscal years 2003-2013.

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.

A group of capital projects were approved during FY 2012 that will span the following 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
Statements of Net Position
(Dollars in Thousands)

	September 30,		
	2013	**2012**	**2011**
Assets			
Current Assets			
Current Unrestricted Assets	$ 55,004	$ 46,026	$ 45,321
Current Restricted Assets	11,260	9,952	4,052
Total Current Assets	66,264	55,978	49,373
Noncurrent Assets			
Electric Plant	454,447	448,500	463,643
Other Assets	557,375	653,094	676,149
Total Noncurrent Assets	1,011,822	1,101,594	1,139,792
Total Assets	$ 1,078,086	$ 1,157,572	$ 1,189,165
Liabilities			
Current Liabilities			
Current Liabilities	$ 132,834	$ 124,013	$ 53,655
Total Current Liabilities	132,834	124,013	53,655
Noncurrent Liabilities			
Long Term Debt	699,778	758,809	826,414
Noncurrent Liabilities Other Than Debt	190,361	222,892	257,617
Total Noncurrent Liabilities	890,139	981,701	1,084,031
Total Liabilities	1,022,973	1,105,714	1,137,686
Net Position			
Net Investment in Capital Assets	1,206	2,924	13,651
Restricted for Insurance Claims	9,529	10,366	8,977
Unrestricted	44,378	38,568	28,851
Total Net Position	55,113	51,858	51,479
Total Liabilities and Net Position	$ 1,078,086	$ 1,157,572	$ 1,189,165

Three years presented as required by GASB 34

Net Position in FY 2011 was reclassified to correspond with the presentation in the current year financial statements

Statement of Net Position Information
Explanations of Significant Variances

Current Unrestricted Assets increased $8.9 million (20%). Current unrestricted assets consist of cash and investments, fuel and material inventories, accounts receivable and interest receivable. The increase is due primarily to a positive annual change in net position and cash on hand which will be distributed to the Member Cities as part of an annual refund.

Current Restricted Assets increased $1.3 million (13%) due primarily to a portion of next year's higher debt service being classified as current since it will be used within one year.

Electric Plant increased $5.9 million (1%). During FY 2013, the Agency completed two major transmission projects upgrading the Greenville Olinger Line ($14.0 million) and a portion of the Denton Loop ($8.1 million). These additions were offset by an increase in accumulated depreciation. See note 2 of the accompanying notes to the financial statements for further information related to Electric Plant.

Other Assets decreased by $95.7 million (15%) in FY 2013 due primarily to Deferred Expenses to be Recovered decreasing 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 each year to FY 2018.

Current Liabilities increased $8.8 million (7%) primarily due to the reclassification of a portion of debt to current since it will be paid within a year.

Long-Term Debt decreased by $59.0 million (8%) primarily due to scheduled payments on the Series 1993 Bonds. In April 2013, TMPA issued Series 2013 Junior Subordinate Lien Revenue Refunding Bonds in order to refund a portion of its variable rate TECP.

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 $32.5 million (15%) due primarily to the regular 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.

Texas Municipal Power Agency
Operating Information
(Dollars in Thousands)

	For the Years-Ended September 30,		
	2013	**2012**	**2011**
Operating Revenues			
Power Sales	$ 219,311	$ 112,265	$ 138,069
Transmission Revenues	43,321	47,166	40,323
Other Operating Revenues	8,488	3,060	2,194
Total Operating Revenues	271,120	162,491	180,586
Operating Expenses			
Fuel	62,027	48,338	81,428
Power Production - Operation and Maintenance	19,946	16,274	22,296
Transmission - Operation and Maintenance	2,545	2,071	2,063
Administrative and General	11,224	14,444	12,525
Transmission System Access Fee	14,907	13,532	12,509
Depreciation Expense	20,157	18,979	18,242
Renewals and Replacements	3,599	2,730	10,799
Total Operating Expenses	134,405	116,368	159,862
Income from Operations	136,715	46,123	20,724
Other Income (Expenses)			
Investment Revenue	420	812	572
Miscellaneous Other Income (Expenses)	(60)	2,500	2,719
Total Other Income	360	3,312	3,291
Interest Charges			
Interest Expense on Debt	39,373	38,454	38,341
Amortization of Debt Issuance Cost and Excess Cost on Advance Refunding of Debt	4,240	7,088	7,356
Total Interest Charges	43,613	45,542	45,697
Deferred Expense Recovered in the Current Year	(89,363)	(19,187)	(7,510)
Deferred Revenue Recognized in the Current Year	34,949	34,949	34,949
Net Revenues before Refunds	39,048	19,655	5,757
Refunds to Member Cities	(35,793)	(19,276)	(11,921)
Change in Net Position	3,255	379	(6,164)
Net Position			
Beginning Balance	51,858	51,479	57,643
Ending Balance	$ 55,113	$ 51,858	$ 51,479

Three years presented as required by GASB 34

Operating Information
Explanations of Significant Variances

Power Sales revenue increased $107.0 million (95%) in FY 2013. Power Sales are based upon two components, demand and energy. The demand component is designed to cover the Agency's fixed costs, including debt service, and is billed ratably throughout the year. The energy component is based on the cost of fuel and billed per-unit of generation. Demand sales were up by $88.7 million (133%) due to higher rates caused by increased debt service requirements in FY 2013. The higher debt service requirements are anticipated to continue through FY 2018 as TMPA pays off its generation debt. Energy sales were up $18.3 million (40%) due to higher generation resulting from improved wholesale power prices in the ERCOT market.

Transmission Revenue decreased $3.8 million (8%) due to a one-time settlement included in prior year revenue. For more information on the settlement, please see the FY 2012 financial statements.

Other Operating Revenues increased $5.4 million (177%) due to special payments by the Member Cites. TMPA Staff negotiated changes to the long-term contracts for coal supply and rail transportation to lower the commitments under the contracts in order to have more flexibility in the uncertain ERCOT wholesale market. Other operating revenues increased due to Member City payments to fund the settlements on these contracts.

Fuel Expense increased $13.7 million (28%) based on higher generation. Fuel expense trailed the change in generation (39%) due to successful negotiations lowering the coal and transportation rates paid by the Agency.

Power Production Operation and Maintenance increased $3.7 million (23%) due to an increase in the estimated liability for mine reclamation which is discussed in more detail in footnotes 9 and 10. Mine reclamation is considered a Power Production expense because it relates to a discontinued fuel operation.

Administrative and General Expenses decreased $3.2 million (22%) due to reduced letter of credit fees for the smaller TECP program ($0.7 million) and reduced labor expense due to lower staffing levels in the current year ($0.6 million). Additionally, prior year expenses were higher due to staff restructuring and legal fees due to the negotiation of the coal transportation and supply contracts.

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 $1.4 million (10%) in FY 2013, due to higher transmission rates approved by the PUCT, primarily attributable to new transmission investments in the Competitive Renewable Energy Zone (CREZ) projects.

Depreciation Expense increased $1.2 million (6%) due to new capital projects placed in service.

Miscellaneous Other Income (Expense) decreased $2.6 million (102%) due to last year having a $2.5 million one-time gain on the disposal of a transformer insured at replacement value.

Deferred Expense Recovered in the Current Year increased $70.2 million (366%) due to higher debt service which is the basis for recovering most deferred expenses.

Refunds to Member Cities increased $16.5 million (86%) due to higher debt service coverage refunds driven by higher debt service levels in FY 2013 and an annual refund of excess revenues due at year-end in accordance with the Power Sales Contract.

TEXAS MUNICIPAL POWER AGENCY

BASIC FINANCIAL STATEMENTS

Texas Municipal Power Agency
Statements of Net Position
(Dollars in Thousands)

Assets

	September 30, 2013	September 30, 2012
Current Assets		
Current Unrestricted Assets		
Cash and Cash Equivalents	$ 31,977	$ 14,282
Inventories		
Fuel Stock	4,776	13,803
Materials and Supplies	6,446	6,329
Accounts Receivable and Other	11,653	11,417
Accrued Interest Receivable	152	195
Total Current Unrestricted Assets	55,004	46,026
Current Restricted Assets		
Cash and Cash Equivalents	10,465	9,257
Accounts Receivable and Other	795	695
Total Current Restricted Assets	11,260	9,952
Total Current Assets	66,264	55,978
Noncurrent Assets		
Electric Plant		
In Service	1,121,660	1,097,562
Less Accumulated Depreciation	(671,968)	(651,010)
Total Net Plant	449,692	446,552
Construction Work in Progress	4,755	1,948
Total Electric Plant	454,447	448,500
Other Assets		
Restricted Cash and Investments (Cash and Cash Equivalents $32,948 and $38,908 for 2013 and 2012, respectively)	143,836	146,255
Unamortized Debt Issuance Cost	3,503	3,225
Unamortized Excess Cost on Advance Refunding of Debt	12,354	16,723
Deferred Expense to be Recovered in Future Years	397,682	486,891
Total Other Assets	557,375	653,094
Total Noncurrent Assets	1,011,822	1,101,594
Total Assets	$ 1,078,086	$ 1,157,572

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

Texas Municipal Power Agency
Statements of Net Position
(Dollars in Thousands)

Liabilities and Net Position

	September 30, 2013	September 30, 2012
Current Liabilities		
Current Maturities of Revenue Bonds	$ 33,722	$ 32,300
Zero Coupon Bond Interest Payable	74,844	65,728
Accrued Interest Payable	917	736
Accounts Payable	8,889	13,595
Deferred Revenue	5,290	5,290
Accrued Distribution to Member Cities	4,993	1,193
Accrued Compensation and Pension Benefits	2,273	3,615
Accrued Mine Reclamation Cost	1,906	1,556
Total Current Liabilities	132,834	124,013
Noncurrent Liabilities		
Long-Term Debt		
Revenue Bonds	421,221	275,528
Unamortized Discount/Premium	4,001	4,679
Zero Coupon Bond Interest Payable	214,821	265,602
Tax Exempt Commercial Paper	59,735	213,000
Total Long-Term Debt	699,778	758,809
Other Employee Retirement Benefits	13,804	11,754
Accounts Payable	15	945
Deferred Revenue	171,833	206,782
Accrued Mine Reclamation Cost	4,709	3,411
Total Other Long-Term Obligations	190,361	222,892
Total Noncurrent Liabilities	890,139	981,701
Total Liabilities	1,022,973	1,105,714
Net Position		
Net Investment in Capital Assets	1,206	2,924
Restricted for Insurance Claims	9,529	10,366
Unrestricted	44,378	38,568
Total Net Position	55,113	51,858
Total Liabilities and Net Position	$ 1,078,086	$ 1,157,572

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

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

	For the Years Ended September 30, 2013	For the Years Ended September 30, 2012
Operating Revenues		
Power Sales	$ 219,311	$ 112,265
Transmission Revenues	43,321	47,166
Other Operating Revenues	8,488	3,060
Total Operating Revenues	271,120	162,491
Operating Expenses		
Fuel	62,027	48,338
Power Production - Operation and Maintenance	19,946	16,274
Transmission - Operation and Maintenance	2,545	2,071
Administrative and General	11,224	14,444
Transmission System Access Fee	14,907	13,532
Depreciation Expense	20,157	18,979
Renewals and Replacements	3,599	2,730
Total Operating Expenses	134,405	116,368
Income from Operations	136,715	46,123
Other Income		
Investment Revenue	420	812
Miscellaneous Other Income (Expenses), Net	(60)	2,500
Total Other Income	360	3,312
Interest Charges		
Interest Expense on Debt	39,373	38,454
Amortization of Debt Issuance Cost and Excess Cost on Advance Refunding of Debt	4,240	7,088
Total Interest Charges	43,613	45,542
Deferred Expense Recovered in the Current Year	(89,363)	(19,187)
Deferred Revenue Recognized in the Current Year	34,949	34,949
Net Revenues before Refunds	39,048	19,655
Refunds to Member Cities	(35,793)	(19,276)
Change in Net Position	3,255	379
Net Position		
Beginning Balance	51,858	51,479
Ending Balance	$ 55,113	$ 51,858

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,	
	2013	**2012**
Cash Flows from Operating Activities		
Cash Received from Power Sales	$ 212,320	$ 113,474
Cash Received from Transmission Revenues	32,706	37,025
Cash Received from Other Revenues	10,325	1,541
Cash Paid to Suppliers	(87,511)	(80,897)
Cash Paid to Employees	(11,754)	(13,812)
Net Cash Provided by Operating Activities	156,086	57,331
Cash Flows from Capital and Related Financing Activities		
Proceeds from Sale of Assets	252	2,399
Proceeds from Tax Exempt Commercial Paper	25,300	7,400
Proceeds from Bonds	179,415	-
Proceeds from Member Cities	5,290	5,290
Payment of Debt and Commercial Paper from Refinancing	(178,565)	-
Cost of Refinancing	(827)	-
Payment of Tax Exempt Commercial Paper	-	(4,500)
Construction Work in Progress	(25,769)	(3,105)
Payment of Principal on Debt	(32,300)	(8,265)
Interest Paid on Debt	(80,867)	(34,130)
Refunds to Member Cities	(31,993)	(19,076)
Net Cash Used for Capital and Related Financing Activities	(140,064)	(53,987)
Cash Flows from Investing Activities		
Proceeds from Sale of Investments	70,628	96,121
Interest and Dividends on Investments	764	487
Purchase of Investments	(74,471)	(120,259)
Net Cash Used for Investing Activities	(3,079)	(23,651)
Net Increase (Decrease) in Cash	12,943	(20,307)
Beginning Cash Balance	62,447	82,754
Ending Cash Balance	$ 75,390	$ 62,447

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, 2013	For Years Ended September 30, 2012
Income from Operations	$ 136,715	$ 46,123
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operations:		
Depreciation Expense	20,157	18,979
Fuel Settlement Expense	(6,645)	-
Change in Accounts Receivables and Other	(236)	94
Change in Inventories	8,910	(6,320)
Change in Accrued Mine Reclamation Cost	1,648	(1,911)
Change in Accounts Payable	(4,898)	(2,658)
Change in Accrued Compensation and Pension Benefits	(1,342)	959
Change in Other Employee Retrirement Benefits	2,050	2,126
Miscellaneous Non-Operating Activities	(273)	(61)
Total	19,371	11,208
Net Cash Provided by Operating Activities	$ 156,086	$ 57,331

Noncash Investing and Financing Activities:

The Agency recorded decreases in fair market value of its investments of $301 as of September 30, 2013 and increases in fair market value of its investments of $357 as of September 30, 2012.

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

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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 position (adjusted for net position 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").

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 GASB Statement No. 62 ("GASB 62"), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. In general, GASB 62 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 FY2013

GASB Statement No. 60 ("GASB 60"), *Accounting and Financial Reporting for Service Concession Arrangements,* addressed issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Since the Agency is not engaged in these types of arrangements, implementation had no impact on the Agency.

GASB Statement No. 61 ("GASB 61"), *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34,* addressed reporting entity issues that have arisen since the issuance of those Statements. Particularly, this Statement modified certain requirements for inclusion of component units in the financial reporting entity. No component units exist for the Agency so implementation had no impact on the financial statements.

GASB Statement No. 62 ("GASB 62"), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* incorporated into GASB's authoritative literature certain accounting and financial reporting guidance included in FASB and AICPA pronouncements which were issued on or before November 30, 1989 and which do not conflict with or contradict GASB Pronouncements. This incorporation included adding FASB Accounting Standards Codification Section 980 ("ASC 980"), *Regulated Operations,* into GASB's authoritative literature. Prior to GASB 62, the Agency followed the provisions of ASC 980 and since it was incorporated into GASB authoritative literature, implementation of GASB 62 had no impact on the financial statements of the Agency.

GASB Statement No. 63 ("GASB 63"), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* provided guidance for deferred outflows of resources and deferred inflows of resources. This Statement amended 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. Implementation of GASB 63 resulted in changes in the appearance of the Basic Financial Statements, including changing the name of the balance sheets to statements of net position, changing the name of the statements of revenue, expenses, and changes in net assets to statements of revenues, expenses, and changes in net position, and the name change of net assets to net position.

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 Issued but Not Yet Effective

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 Statements of Net Position.

In March 2012, GASB issued Statement No. 66 ("GASB 66"), *Technical Corrections – 2012 – An Amendment to GASB Statement 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.

In January 2013, GASB issued Statement No. 69 ("GASB 69"), *Government Combinations and Disposals of Government Operations,* establishing accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. GASB 69 is effective for the fiscal period ending September 30, 2015 but implementation will have no impact on the Agency.

In April 2013, GASB issued Statement No. 70 ("GASB 70"), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, improving accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Particularly, GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it's more likely than not that the government will be required to make a payment on the guarantee. Furthermore, GASB 70 requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. GASB 70 is effective for the fiscal period ending September 30, 2014 but implementation will have no 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, 2013 and 2012 are as follows (in thousands):

Summary of Additions, Less Transfers and Retirements to Plant

	Oct. 1, 2012	Additions	Transfers	Retirements	Sept. 30, 2013
Electric Plant					
Generation	$ 684,629	$ 2,436	$ 840	$ -	$ 687,905
Transmission	243,942	68	23,060	(1,818)	265,252
Mine-Related	52,632	-	-	-	52,632
General Plant	104,666	47	-	(535)	104,178
Other	10,775	-	-	-	10,775
Intangible Assets	918	-	-	-	918
Total Electric Plant	1,097,562	2,551	23,900	(2,353)	1,121,660
Accumulated Depreciation					
Generation	(443,548)	(16,103)	-	-	(459,651)
Transmission	(108,113)	(5,427)	-	1,375	(112,165)
Mine-Related	(37,355)	-	-	-	(37,355)
General Plant	(60,614)	(1,178)	-	390	(61,402)
Other	(1,348)	-	-	-	(1,348)
Intangible Assets	(32)	(15)	-	-	(47)
Total Accumulated Depreciation	(651,010)	(22,723)	-	1,765	(671,968)
Construction Work in Progress	1,948	26,707	(23,900)	-	4,755
Total Electric Plant, Net of Accumulated Depreciation	$ 448,500	$ 6,535	$ -	$ (588)	$ 454,447

	Oct. 1, 2011	Additions	Transfers	Retirements	Sept. 30, 2012
Electric Plant					
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 Electric 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)	(1,207)	-	-	(60,614)
Other	(1,348)	-	-	-	(1,348)
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 Electric Plant, Net of Accumulated Depreciation	$ 463,643	$ (15,132)	$ -	$ (11)	$ 448,500

Allowance for Funds Used in Projects

Since inception, TMPA capitalized to electric plant approximately $135,603,224 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 $10,496 and $4,594 during 2013 and 2012, 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 2.1% and 2.0% in 2013 and 2012, respectively. During 2013 and 2012, depreciation expense was $20,157,105 and $18,979,394, respectively.

The change in transmission asset useful lives had the following impact on operating income and net position 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 Position	$ 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 2013 and 2012, renewals and replacements expense was $3,599,257 and $2,729,504, respectively. At September 30, 2013 and 2012 $5,204,680 and $5,475,129 were carried forward, respectively.

Summary of Additions, Less Transfers and Retirements to Plant

As of September 30, 2013, accumulated depreciation activity of $20.9 million includes depreciation expense of $20.2 million, renewals and replacements of $2.5 million, less retirements of $1.8 million. 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 of $2.7 million.

Investments

Investments are stated at fair value and consist primarily of United States ("U.S.") Government and Agency obligations, as well as, investments in the Texas Local Government Investment Pool ("TexPool"). 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 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 losses on the fair value of investments, excluding investments in the risk management fund, were $295,000 for the year ended 2013 as compared to net unrealized gains of $349,000 for the year ended 2012 and were deferred and recorded as a component of Other Assets-Deferred Expense to be Recovered in Future Years. Total net unrealized loss of $191,000 as of September 30, 2013 and total net unrealized gain of $103,000 as of September 30, 2012, 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 Position occurs when the investments mature or are sold.

Inventories

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

Escrow Accounts

In 2012, the Agency provided the Member Cities with an option to use escrow accounts to manage their portion of the Agency's outstanding debt. Each Member City may fund an escrow account and specify a future year of debt service to which the funds will be applied, thereby prepaying their portion of the debt service. The Agency then provides a credit on the City's power bills for the prepayment in the year the funds are used to pay debt service. The escrow accounts give the Member Cities the flexibility to act independently in determining when each Member City will pay for its share of debt service. To date, the City of Greenville is the only Member City that has chosen to use the escrow accounts, funding escrows in both 2012 and 2013. The escrow accounts are reflected as restricted cash and investments and deferred revenue on the Statements of Net Position.

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, 2013 and 2012, the Agency had outstanding receivable balances related to Member Cities' electricity sales of $6.9 million and $5.2 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 GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. 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.

Deferred Revenues to be Recognized in Future Years

As noted above, TMPA is subject to the accounting requirements of GASB 62. 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, 2013, 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 Position

With the adoption of GASB 63 in 2013, what was formerly referred to as net assets is now referred to as net position. Consistent with GASB 63, net position is displayed in three components – net investment in capital assets, restricted for insurance claims, and unrestricted.

In 2013, the Agency reviewed the components comprising net position to evaluate and determine whether certain items would be more appropriately classified in another component. As a result of the review, certain items were determined to be more appropriately classified in another component including reclassifying a portion of Deferred Expense to be Recovered in Future years to net investment in capital assets from unrestricted and reclassifying funds collected to pay zero coupon bond interest to unrestricted from net investment in capital assets since the zero coupon bond interest payable is classified as unrestricted.

Components of net investment in capital assets 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 position restricted for insurance claims is comprised of current and noncurrent cash and investments, restricted for Risk Management purposes.

Unrestricted net position is comprised of those assets and liabilities that do not meet the definition of “restricted” or “net investment in capital assets”.

3. Restricted Assets

Restricted assets include those assets comprising the Bond, Reserve, Contingency, Junior Subordinate Construction Bond, Subordinate Lien Bond, Subordinate Lien Reserve, Junior Subordinate Lien Bond 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. Junior Subordinate Lien Bond Fund assets are for use in paying interest and principal on the outstanding Series 2013 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:	2013	2012
Bond Fund	$ 30,846	$ 31,194
Reserve Fund	103,120	103,360
Contingency Fund	2,020	2,020
Junior Subordinate Construction Bond Fund	1	1
Subordinate Lien Bond Fund	685	683
Subordinate Lien Reserve Fund	7,815	7,888
Junior Subordinate Lien Bond Fund	288	-
Risk Management Program	10,321	11,061
Total Funds	$ 155,096	$ 156,207

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, municipal bonds, money market funds, 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, 2013 and 2012, is as follows (in thousands):

Investment Type:	2013 Fair Value	2012 Fair Value
U.S. Treasury Securities	$ 2,029	$ 2,104
Fannie Mae	38,574	52,639
Federal Home Loan Mortgage Corp	59,302	39,475
Federal Home Loan Bank	8,000	4,997
Federal Farm Credit Bank	1,000	-
Municipal Bonds	1,982	1,014
Money Market Funds	5,290	5,290
Commercial Paper	-	7,119
Investment Portfolio Net of TexPool	116,177	112,638
Investment Pools - TexPool	68,644	53,968
Total Investment Portfolio	$ 184,821	$ 166,606

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 U.S. agency bonds, municipal bonds, and money market funds are rated as follows:

Investment Type:	Standard & Poor's	Moody's Investor Service	Fitch Ratings
U.S. Agency Bonds	AA+	Aaa	AAA
Municipal Bonds		Aa1	AA+
Money Market Funds	AAAm	Aaa-mf	

Custodial Risk

Custodial risk 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, 2013 and 2012, TMPA had recorded cash deposits of $1.45 million and $3.19 million, respectively. Bank statement balances as of September 30, 2013 and 2012 were $1.77

million and $1.52 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 prior to 2013, an actuarial study was prepared by a professional actuary to determine, amongst others, funding needed to maintain actuarial soundness.

In 2013, the decision was made to exhaust the Risk Management Program by decreasing annual funding to the program. As currently planned, the Risk Management Program will be fully exhausted in 2018. As a result of this decision, the need for an actuarial study to determine appropriate funding was no longer needed. Therefore, beginning in 2013, the Agency chose to discontinue actuarial studies on its Risk Management Program.

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

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 $12,000 and $700,000 in accounts payable at September 30, 2013 and September 30, 2012, respectively, based on the requirements of GASB 10 and GASB 30.

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

Fiscal Year	Beginning Liability	Changes in Claim Estimates	Claim Payments	Ending Liability
2013	$ 700	$ (259)	$ (429)	$ 12
2012	1,156	188	(644)	700

6. Long-Term Debt

The Agency's long-term debt consists of the following at September 30, 2013 (in thousands):

	Outstanding October 1, 2012	Issued/ Increased	Redeemed/ Decreased	Accretion/ Amortization Premium / Discount	Outstanding September 30, 2013	Principal Due Within One Year
Revenue Bonds Series						
1993	$ 150,713	$ -	$ (30,140)	$ -	$ 120,573	$ 31,477
2008	37,587	-	-	(169)	37,418	-
2010	124,207	-	(2,160)	(509)	121,538	2,245
2013	-	179,415	-	-	179,415	-
Total Revenue Bonds	312,507	179,415	(32,300)	(678)	458,944	33,722
Zero Coupon Interest Payable						
1993	331,330	-	(71,150)	29,485	289,665	74,844
Total Zero Coupon Interest Payable	331,330	-	(71,150)	29,485	289,665	74,844
Non-Taxable Commercial Paper	213,000	25,300	(178,565)	-	59,735	-
Total Long-term Debt	$ 856,837	$ 204,715	$ (282,015)	$ 28,807	$ 808,344	$ 108,566

Revenue Bonds outstanding, as of September 30, 2013 and September 30, 2012, respectively, are (in thousands):

Series	Current Amount Outstanding 2013	Long-Term Amount Outstanding 2013	Maturity From	Maturity To	Range of Interest Rates From	Range of Interest Rates To	Earliest Redemption Date
1993	$ 31,477	$ 89,096	2013	2017	6.100	6.150	2013
2008	-	36,835	2017	2017	4.881	4.881	2017
2010	2,245	115,875	2012	2040	3.000	5.000	2012
2013	-	179,415	2017	2018	1.898	1.898	2017
Total	$ 33,722	$ 421,221					

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					

Debt service requirements for the revenue bonds for the next twenty-seven years as of September 30, 2013, are as follows (in thousands):

Year	Principal	Interest	Total
2014	$ 33,722	$ 91,854	$ 125,576
2015	33,849	100,117	133,966
2016	32,112	101,862	133,974
2017	147,330	103,477	250,807
2018	102,090	6,347	108,437
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
	$ 454,943	$ 473,612	$ 928,555
Unamortized Discount/Premium	4,001		
Total	$ 458,944		

On February 26, 2013, TMPA issued $179,415,000 of Junior Subordinate Lien Revenue Refunding Bonds, Series 2013. At issuance, $78,665,000 was used to pay principal on TECP that matured on February 26, 2013 and $99,900,000 was placed in an escrow and held until March 12, 2013. On March 12, 2013, the escrowed funds were used to pay principal on TECP that matured on that date. The purpose of this issuance was to refund generation-related debt previously held in the Agency's variable rate tax-exempt commercial paper program, allowing the Agency to lock in low interest rates and reduce the exposure to variable rate generation debt.

Due to the refunding, the Agency increased its debt service payments by $17,471,000, resulting in an economic loss of $90,000. The increase in debt service payments and the economic loss are the result of applying accounting rules to the refunding of short-term debt. Essentially, these calculations assume the TECP refunded, which had maturities of 180 day or less, matured in 2013 and therefore no additional interest would have been incurred while principal and interest on the Series 2013 bonds continue through 2018. However, it was the Agency's intention to continue to roll-forward the TECP refunded through 2018 which means additional interest would have been incurred. Additionally, factoring into the Agency's decision to refund the TECP was the reduction in line of credit fees as a result of reducing the line of credit limit. Based on the full impact of the refunding, the Agency estimated savings of $14,300,000.

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 $289,665,000 through September 30, 2013 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 1993 bonds, 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, 2013, the outstanding balances of these defeased bonds were as follows:

Series 1993 Revenue Refunding Bonds	$10,295,000

7. Tax-Exempt Commercial Paper Program

TMPA is authorized to issue tax-exempt commercial paper in the principal amount not to exceed $100,000,000 (the "Series 2005 Notes"), of which $59,735,000 is outstanding at September 30, 2013.

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 2013 and 2012 ranged from 0.09% to 0.24% and from 0.06% 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 Barclays Bank PLC, with terms that TMPA may borrow up to $100,000,000 on a revolving basis until April 19, 2016, unless extended by the Bank. Under this agreement, TMPA pays a commitment fee of 0.475% 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 8% at September 30, 2013, with a maximum rate not to exceed that allowed by law.

Principal debt payments on existing tax-exempt commercial paper as of September 30, 2013 are scheduled as follows (in thousands):

Year	Type	Principal
2018	Tax-Exempt Commercial Paper	$ 59,735

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 2013 and 2012 were as follows (in thousands):

	2013	%	2012	%
Agency's total payroll	$10,739	-	$12,630	-
Agency's covered payroll	$10,345	100%	$11,368	100%
Agency's contribution	$1,035	10%	$1,137	10%
Employees' contribution	$28	.27%	$23	.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 $17,500 and $17,000 for calendar years 2013 and 2012, respectively. A "catch-up" provision, which allows an additional contribution of $5,500 for 2013 and 2012, 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, 2013 and 2012, participants numbered 54 and 56 and participant contributions were $454,945 and $440,898, 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 2013, the Agency paid 100% of the cost of life insurance, and 71% and 77% of the cost of employee medical and dental benefits, respectively. For 2012, the Agency paid 100% of the cost of life insurance, and 71% and 61% 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	$ 3,770,243
Interest on net OPEB obligation	411,563
Adjustment to annual required contribution	(1,735,917)
Annual OPEB expense	2,445,889
Contributions made	(395,754)
Increase in net OPEB obligation	2,050,135
Net OPEB obligation - beginning of year	11,753,918
Net unfunded OPEB obligation - end of year	$ 13,804,053

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 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
9/30/2013	$2,445,889	16.2%	$13,804,053

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. In 2013, because of staffing changes that have occurred since the previous last complete evaluation in 2010, the Agency obtained a complete evaluation prepared as of May 1, 2013. The actuarial accrued liability for benefits was $13,804,053 and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of $13,804,053. The covered payroll (annual payroll of active employees covered by the plan) was $10,345,000, and the ratio of the UAAL to the covered payroll was 133.4%. 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 2.4%. 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 2013 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 2014, 2015, 2016, 2017, 2018, 2019, 2020, and 2021 and beyond, respectively. Dental care cost trend rates assumed were 5% for 2014 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 54 and 48 retired participants as of September 30, 2013 and 2012, 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 2013, $1,605,325 was paid in medical expenses based on an average of 150 participants. Participant medical premiums collected by the Agency in 2013 were $472,433 resulting in a total cost to the Agency of $1,132,892. Dental expenses paid in 2013 totaled $84,435 based on an average of 139 participants. Participant dental premiums collected were $19,738, resulting in a total cost to the Agency of $64,697.

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, 2013 is as follows (in thousands):

Beginning Liability	PTO Accrued	PTO Taken	Ending Liability
$ 560	$ 1,107	$ (1,066)	$ 601

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 $1,117,675 and $2,353,000 for the years ended September 30, 2013 and 2012, 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 was $424,558 in 2013 and $879,991 in 2012.

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 part 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 Arch Coal Sales Company, the parties, on December 31, 2012, entered into a new coal supply agreement. The new agreement with Arch Coal Sales Company covers the period commencing on January 1, 2013, and ending on August 31, 2018, and provides for a supply of coal from the Coal Creek and Black Thunder mines 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.

On April 20, 2012, TMPA filed before the Surface Transportation Board a petition to re-open and modify the 2003/2004 Surface Transportation Board rate prescription. This petition sought 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 (the "Collection Case").

Thereafter, the parties engaged in contract negotiations to resolve the dispute. On March 1, 2013, the parties resolved the dispute by entering into a Rail Transportation Agreement, under which rail transportation services will be provided through August 31, 2018. As part of the resolution of the dispute, TMPA paid BNSF the Alleged Shortfall Amount, TMPA withdrew its Petition for Review before the United States Court of Appeals and its Petition to Reopen before the Surface Transportation Board, and the Collection Case, by agreement, was dismissed with prejudice.

E. 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.

F. In connection with the Gibbons Creek Lignite Mine, TMPA is self-bonded for $12,700,000 and has irrevocable letters of credit in the aggregate amount of $26,300,000 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.

G. 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. Unlike investor-owned utilities, MOUS and electric cooperatives are not required to unbundle their generation functions from transmission and distribution functions into separate companies. However, same as investor-owned utilities, rates for wholesale transmission services provided by MOUS and electric cooperatives are determined by the PUCT. Rates for the use of the distribution systems of MOUS and electric cooperatives are determined by such entities. As of September 30, 2013, 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.

H. 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.

I. 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.

J. 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. On February 28, 2013, the Court of Appeals reversed the District Court and dismissed Mr. Johnston's lawsuit. Following the ruling of the Court of Appeals, which ruling has become final, the parties have resumed negotiations over the acquisition of inundation and flood easements.

K. By letter dated May 29, 2013, Atmos Energy notified the Agency that it was planning to construct a gas pipeline across the Agency's mine property, that it had the power of eminent domain, and that it desired to purchase an easement for the pipeline encumbering a total of 27.098 acres. Because the planned route of the pipeline easement traverses an area that is undergoing reclamation operations and is subject to reclamation bonding with the Railroad Commission of Texas, TMPA has expressed to Atmos reservations regarding the location of the easement. The concern is that the pipeline construction, maintenance, and operation will delay and increase the costs of reclamation. The parties are currently in negotiations concerning the routing of the pipeline.

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 completed the refurbishment of the scrubber at Gibbons Creek in April 2011 to further reduce its SO_2 emissions.

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. It was reinstated as an interim measure by the same court on December 28, 2008 while the EPA worked on a replacement rule. In August 2011, the EPA released the replacement rule, known 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 new replacement rules are developed. Whatever rules are finally promulgated, TMPA expects to be able to comply with new emissions caps with its refurbished scrubber for control of SO_2 and 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, 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. Provision was made under the rule for a one-year extension, if warranted. TMPA requested and obtained the extension to April 2016 in order to obtain sufficient time to adequately investigate and test mercury control technologies under different operating scenarios.

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 has acquired a new impetus under President Obama's Climate Action Plan, which was announced on June 25, 2013 and which requires EPA to issue proposed carbon pollution standards by June 2014. TMPA is monitoring developments in this area.

In addition to these regulations, EPA is also developing new regulations for national ambient air quality standards, cooling water intake structures, coal combustion residuals, and effluent limitations guidelines. All of these have the potential to affect the operations of Gibbons Creek. TMPA is monitoring developments in these areas.

Other Environmental Matters

The Gibbons Creek Lignite Mine, which was the original source of fuel for the Gibbons Creek Steam Electric Station, was closed in 1996. The reclamation of the mine site and the release of reclamation obligations has been an ongoing activity since that time. Currently, field reclamation activities are essentially complete and TMPA is in the process of applying for bond release with the Railroad Commission of Texas, the main regulatory authority.

As of the end of fiscal year 2013, TMPA has obtained full bond release on 1,200 acres (15% of the bonded area) and has applied for partial and full bond release on an additional 1,000 acres. TMPA will continue to aggressively pursue bond release. It is projected that by 2016, much 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.

REQUIRED SUPPLEMENTARY INFORMATION

Texas Municipal Power Agency

Required Supplementary Information

Postretirement Benefits Plan

September 30, 2013

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]
2013	May 1, 2013	$ -	$ 13,804,053	$ 13,804,053	0.00%	$ 10,345,000	133.44%
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.