



TEXAS MUNICIPAL POWER AGENCY

AUDIT AND BUDGET COMMITTEE MEETING

DECEMBER 9, 2021

TEXAS MUNICIPAL POWER AGENCY
AUDIT & BUDGET COMMITTEE MEETING

CAMBRIA HOTEL RICHARDSON - DALLAS
3605 SHIRE BOULEVARD
RICHARDSON, TEXAS 75082

THURSDAY – DECEMBER 9, 2021
9:00 AM

AGENDA

Preliminary matters:

- Call to order
- Public comments

The following matters are scheduled for discussion and for possible action:

1. Consider approval of the minutes of the May 3, 2021 Audit and Budget Committee meeting.
2. Consider appointment of a Vice-Chair for the Committee.
3. Review the Agency's Financial Statements.
4. Receive report on the City of Garland transmission expense billing audit.
5. Consider approval of the external auditors for the audit relating to the 2022 Fiscal Year.
6. Receive update on the Annual Audit Plan.
7. Receive Annual Ethics Program update.
8. Discuss Cash Funding of the Mine Bonding Requirements.
9. Discuss future meeting dates and topics.
10. Adjourn

IN REGARD TO ITEMS SCHEDULED ON THIS AGENDA FOR DISCUSSION AND/OR ACTION IN THE OPEN PORTION OF THE MEETING, THE COMMITTEE MAY, IN ITS DISCRETION, ADDRESS ONE OR MORE OF SUCH ITEMS IN EXECUTIVE SESSION IF AND TO THE EXTENT PERMITTED BY THE TEXAS OPEN MEETINGS ACT.

THIS COMMITTEE MEETING MAY BE ATTENDED BY ONE OR MORE BOARD MEMBERS WHO ARE NOT MEMBERS OF THE COMMITTEE, IN WHICH CASE A QUORUM OF THE BOARD OF DIRECTORS MAY BE IN ATTENDANCE AT THIS COMMITTEE MEETING.

December 9, 2021

AGENDA ITEM NO. 1

SUBJECT: Consider approval of the minutes of the May 3, 2021 Audit and Budget Committee meeting.

BACKUP

MATERIAL: Minutes of the May 3, 2021 Audit and Budget Committee meeting.

ACTION

REQUESTED: Consideration and approval of minutes.

Lyndi Birkhead
12/1/21

TEXAS MUNICIPAL POWER AGENCY

AUDIT AND BUDGET COMMITTEE
MEETING MINUTES

DUE TO THE EXISTENCE OF AN EMERGENCY RELATED TO THE CORONA VIRUS EPIDEMIC, AND IN ACCORDANCE WITH GOVERNOR ABBOTT'S ACTION GRANTING THE REQUEST OF THE OFFICE OF THE ATTORNEY GENERAL TO SUSPEND CERTAIN OPEN-MEETING STATUTES, MEMBERS OF THE PUBLIC WERE ASKED TO ATTEND BY USING A FREE-OF-CHARGE VIDEOCONFERENCE LINK.

MONDAY – MAY 3, 2021

9:30 AM

Mr. Watts called the meeting to order at 9:33 AM.

The following people were present at the meeting:

Committee Members:

Chris Watts – City of Denton (Chairman)

James Ratliff – City of Garland

Buppy Simank – City of Bryan

Summer Spurlock – City of Greenville

Staff:

Lyndi Birkhead

Jan Horbaczewski

Bob Kahn

Daniel Meadows

Tracy Stracener

Others:

Steven Adams – Specialized Public Finance Inc.

Public Comments

Mr. Watts called for public comments. There were none.

1. Consider approval of the minutes of the May 13, 2020 Audit and Budget Committee meeting.

A motion was made by Mr. Ratliff and seconded by Mr. Simank to approve the minutes. The motion passed with voting as follows:

Watts - Aye
Simank - Aye

Ratliff - Aye
Spurlock - Aye

2. Review the notes from the December 10, 2020 Audit and Budget Committee meeting.

Mr. Ratliff stated that he was present at said meeting and agreed with the notes. There were no further comments.

3. Consider appointment of a Vice-Chair for the Committee.

Mr. Watts called for nominations for the Vice-Chair. Mr. Ratliff nominated Ms. Spurlock, seconded by Mr. Simank. No further nominations were made. The motion passed with voting as follows:

Watts - Aye
Simank - Aye

Ratliff - Aye
Spurlock - Abstained

4. Discuss the Agency's proposed FY22 Budget Package.

Ms. Birkhead highlighted several things about the Package:

- a) In the Generation budget, costs greatly reduced as a result of the sale of the plant in February 2021.
- b) In the Transmission budget, Transmission revenues reduced significantly as a result of TMPA's interim rate filing that was approved by the Public Utility Commission of Texas in December 2020. Ms. Birkhead also pointed out that the Transmission debt is conservatively projected with the current debt structure, instead of the proposed debt structure to be reviewed in the next agenda item.
- c) In the Mine budget, the largest change from the previous year was the retirement of Murphy Hawkins at the end of FY21 (his position is no longer included in FY22).

The process for selling the Mine property was also briefly discussed.

A motion was made by Mr. Ratliff and seconded by Mr. Simank to recommend that the FY22 Budget Package be presented to the Board at the June meeting. The motion passed with voting as follows:

Watts - Aye
Simank - Aye

Ratliff - Aye
Spurlock - Aye

5. Review new accounting standards and their impact on the Agency.

Ms. Birkhead explained that the only standard that would impact the current year would be GASB 84, Fiduciary Activities. Implementation simply involves increased disclosures within the financial statements. There were no further questions.

6. Consider approval of the engagement letters with BKD, LLP for Fiscal Year 2021.

A motion was made by Mr. Simank and seconded by Ms. Spurlock to approve the engagement letters. The motion passed with voting as follows:

Watts - Aye
Simank - Aye

Ratliff - Aye
Spurlock - Aye

7. Discuss proposed financing plans relating to the Transmission System.

Ms. Birkhead explained that during the FY22 budget creation process, it became apparent that TMPA's current Revolving Note Program with Bank of America would not be sufficient to cover costs in the short-term as presented in the Transmission Capital Plan. Ms. Birkhead and Steven Adams have worked with the Financial Working Group and the P&O Committee over the last couple of months. All parties have agreed on the structure as presented in the Audit and Budget Committee package.

Mr. Adams reviewed the financing plan, highlighting the significant savings associated with fixing out a portion of the Revolving Note Program, as well as refunding the existing Series 2010 and Series 2017 bonds. The result would be a 30-year fixed rate bond with a 5-year par call with coupons near par in the approximate amount of \$200 million.

Mr. Ratliff inquired about the 5-year par call and whether the Financial Working Group had considered all factors concerning whether TMPA will retain the assets for that length of time. Mr. Kahn and Ms. Birkhead assured him they had discussed this at length.

A motion was made by Mr. Ratliff and seconded by Mr. Spurlock to recommend that the proposed financing plans be presented to the Board at the June meeting. The motion passed with voting as follows:

Watts - Aye
Simank - Aye

Ratliff - Aye
Spurlock - Aye

8. Discuss future meeting dates and topics.

Ms. Birkhead proposed December 9, 2021 for the next Audit & Budget Committee meeting with the primary topic to discuss the FY21 audited financial statements. All members agreed.

9. Adjourn

Mr. Watts adjourned the meeting at 10:00 AM.



Lyndi Birkhead, Director of Finance

December 9, 2021

AGENDA ITEM NO. 2

SUBJECT: Consider appointment of a Vice-Chair for the Committee.

DISCUSSION: For several years, the Committee has elected a Vice-Chair to serve in the absence of the Chairperson. This election is optional. Last year, Summer Spurlock was Vice-Chair.

BACKUP

MATERIAL: None.

ACTION

REQUESTED: Elect a Vice-Chair for the Committee.

Lyndi Birkhead
12/1/21

December 9, 2021

AGENDA ITEM NO. 3

SUBJECT: Review the Agency's Financial Statements.

DISCUSSION: This agenda item is to approve the Agency's financial statements and receive the report of the external auditor and management letter comments, if any.

The financial statements are reviewed and approved by the Committee in December to allow a filing with the Railroad Commission of Texas by December 31st.

At the Board Meeting scheduled for 12/9, a resolution will be proposed to accept the audited financial statements into the corporate record of the Agency.

BACKUP

MATERIAL: TMPA Audited Financial Statements

ACTION

REQUESTED: Approve the financial statements, and direct Staff to present them at the 12/9 Board meeting.

Lyndi Birkhead
12/1/21

Texas Municipal Power Agency
Financial Statements

For the Years Ended September 30, 2021 and 2020

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TEXAS MUNICIPAL POWER AGENCY

FINANCIAL SECTION

Independent Auditor's Report

Members of the Board of Directors
Texas Municipal Power Agency
Dallas, TX

We have audited the accompanying financial statements of Texas Municipal Power Agency (Agency or TMPA), as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Texas Municipal Power 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 audits. We conducted our audits 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Municipal Power Agency as of September 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Texas Municipal Power Agency's basic financial statements. The combining statement as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining statement is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BKD, LLP

November 29, 2021

**Texas Municipal Power Agency
Management's Discussion and Analysis ("MD&A")
For the Years Ended September 30, 2021 and 2020
(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.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Texas Municipal Power Agency, Finance Department, P.O. Box 7000, Bryan, Texas 77805 or by visiting our website at www.texasmpa.org.

Financial and Operational Highlights for Fiscal Year Ended September 30, 2021

Over the past decade, the Texas energy market has taken several considerable turns. Until the end of FY 2017, Gibbons Creek Steam Electric Station ("GCSES") operated in a load-following mode, increasing and decreasing generation to follow electrical demand's daily peaks and valleys. More recently, GCSES's operational status with ERCOT transitioned to: Seasonal Operations, effective September 26, 2017 (operated from May 21, 2018 through September 18, 2018); Reserve Shutdown, effective October 1, 2018; and Indefinite Mothball, effective June 1, 2019. On June 28, 2019, a notification to ERCOT was made to remove GCSES from the ERCOT system, effective October 23, 2019. On February 10, 2021, GCSES was sold, and all decommissioning/environmental remediation liability transferred to the new owner.

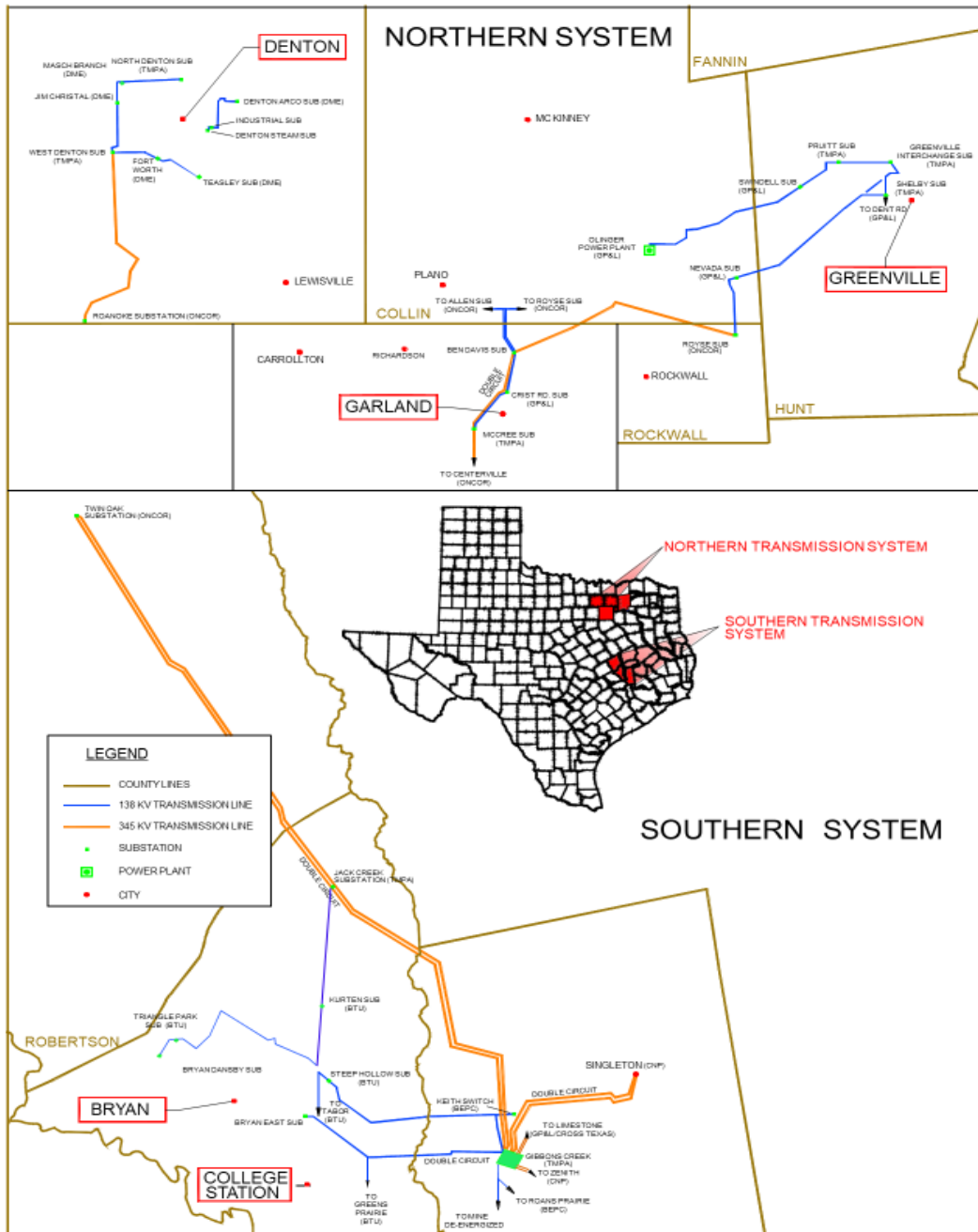
On January 26, 2021, the Railroad Commission of Texas ("RCT") approved full bond release on 554 acres in the Gibbons Creek Mine. This brings the total of fully released land, as of the end of FY 2021, to 89%. Another 538 acres (6%) are pending RCT review, and TMPA plans to file for release on 347 acres (4%) in fall 2021. A final submittal of 48 acres is proposed for spring 2022. TMPA expects all bond release applications to be approved by the end of FY 2022, with the exception of the acid seeps (22 acres). On July 15, 2021, the Board of Directors authorized the Mine to be sold, and on August 26, 2021, TMPA entered into a contract to effect the sale. The sale is expected to close before the end of calendar year 2021.

Effective September 1, 2016, TMPA and the Member Cities entered into a Joint Operating Agreement ("JOA") addressing ownership, operational, and contractual issues associated with TMPA following the expiration of the Power Sales Contract ("PSC"). The PSC expired as to the City of Greenville on September 1, 2018, and expired as to the remaining Cities on September 30, 2018. Unless terminated earlier through the mutual consent of all parties, the JOA remains in effect until the dissolution of TMPA.

TMPA has approximately 350 circuit miles of transmission lines (both 345kV and 138kV), 1 mile of 69kV transmission line, 12 substations, and maintains additional transmission assets within jointly-owned transmission stations. TMPA is a registered Transmission Owner in ERCOT and is represented in various technical working groups which support the ongoing operation of the ERCOT grid. A map of the TMPA transmission system can be found on the following page.

A group of capital projects have been approved that will span the next several 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,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Assets			
Current Assets			
Current Unrestricted Assets	\$ 54,983	\$ 40,037	\$ 47,559
Current Restricted Assets	981	25,739	9,661
Total Current Assets	<u>55,964</u>	<u>65,776</u>	<u>57,220</u>
Noncurrent Assets, Net			
Electric Plant	168,663	197,444	192,771
Other Assets	8,286	104,944	116,212
Total Noncurrent Assets	<u>176,949</u>	<u>302,388</u>	<u>308,983</u>
Total Assets	<u>\$ 232,913</u>	<u>\$ 368,164</u>	<u>\$ 366,203</u>
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Current Liabilities			
Current Liabilities	\$ 32,212	\$ 62,809	\$ 48,006
Total Current Liabilities	<u>32,212</u>	<u>62,809</u>	<u>48,006</u>
Noncurrent Liabilities			
Long Term Debt	200,318	215,768	213,298
Noncurrent Liabilities Other Than Debt	1,608	101,785	120,372
Total Noncurrent Liabilities	<u>201,926</u>	<u>317,553</u>	<u>333,670</u>
Total Liabilities	<u>234,138</u>	<u>380,362</u>	<u>381,676</u>
Deferred Inflows of Resources			
Deferred Gain on Refunding	6,168	-	-
Total Deferred Inflows of Resources	<u>6,168</u>	<u>-</u>	<u>-</u>
Net Position (Deficit)			
Net Investment in Capital Assets	(38,165)	(4,220)	(11,271)
Unrestricted	<u>30,772</u>	<u>(7,978)</u>	<u>(4,202)</u>
Total Net Position (Deficit)	<u>(7,393)</u>	<u>(12,198)</u>	<u>(15,473)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 232,913</u>	<u>\$ 368,164</u>	<u>\$ 366,203</u>

Statements of Net Position Information
Explanations of Significant Variances Between FY 2020 and FY 2021

Current Unrestricted Assets increased \$14.9 million (37%) due primarily to lower Transmission Cost of Service ("TCOS") receivables as the Agency's interim rate filing was approved by the Public Utility Commission of Texas ("PUCT") in December 2020 offset by a \$22.7 million increase in assets held for sale. As previously discussed, the Agency entered into contract to sale the mine in FY 2021 and the carrying value of the mine was reclassified to a current asset.

Current Restricted Assets decreased \$24.9 million (96%) due primarily to the removal of the receivable from the Member Cities related to the decommissioning liability discussed below (see Note 10 for further detail).

Electric Plant decreased by \$28.8 million (15%) as depreciation of transmission assets exceeded current year capital outlays and 22.7 million was reclassified to an asset held for sale as discussed above.

Other Assets decreased by \$96.7 million (92%) due primarily to the removal of the receivable from the Member Cities related to the decommissioning liability discussed below (see Note 10 for further detail).

Current Liabilities decreased \$30.6 million (49%) due primarily to the settlement of the decommissioning/environmental remediation liability. During FY 2021, the generation plant was sold and new owners assumed the decommission liability. The net effect of the sale, including eliminating the previously recorded decommissioning liability and related receivables from the Agency's members was to recognize a gain of \$18.3 million. (see Note 10 for further detail).

Long-Term Debt decreased by \$15.5 million (7%) due primarily to savings resulting from the refunding of the Series 2010 and Series 2017 Transmission bonds. This refunding also fixed out \$30M of the Series A Notes (see Note 5 for further detail).

Non-Current Liabilities Other Than Debt decreased by \$100.1 million (98%) due primarily to the removal of the decommissioning/environmental remediation liability discussed above (see Note 10 for further detail).

Deferred Gain on Refunding increased by \$6.2 million (100%) due to the issuance of the Series 2021 Transmission bond (see Note 5 for further details).

Net Position (Deficit) improved by \$4.8 million (39%). Net position is comprised of two components: net investment in capital assets and unrestricted. The increase is primarily related to the gain on the sale of the plant that occurred in February 2021.

Statements of Net Position Information
Explanations of Significant Variances Between FY 2019 and FY 2020

Total Current Assets increased \$8.6 million (15%) due primarily to the receivable from the Member Cities related to the decommissioning liability discussed below (see Note 10 for further detail).

Electric Plant increased by \$4.7 million (2%) as a significant amount of transmission asset additions were made during the year.

Other Assets decreased by \$11.3 million (10%) due primarily to the decreasing receivable from the Member Cities related to the decommissioning liability discussed below (see Note 10 for further detail). This decrease was partially offset by the \$5.0 million indemnity escrow account that was setup per the JOA.

Current Liabilities increased \$14.8 million (31%) due primarily to the decommissioning/environmental remediation liability booked in accordance with GASB 83 (see Note 10 for further detail). Outlays related to decommissioning are expected to increase in FY 2021. This increase was partially offset by lower distribution of revenues to the Member Cities in FY 2020.

Long-Term Debt increased by \$2.5 million (1%) due primarily to the issuance of \$7.7 million in Series "A" Notes to fund Transmission capital projects. This increase was partially offset by the FY 2020 debt service payments on the Series 2010 and Series 2017 Transmission Bonds.

Non-Current Liabilities Other Than Debt decreased by \$18.6 million (15%) due primarily to the movement of a portion of the decommissioning/environmental remediation liability to a current liability as discussed above.

Net Position (Deficit) improved by \$3.3 million (21%). Net position is comprised of two components: net investment in capital assets and unrestricted. The increase in net position was impacted by having no postage stamp expense in FY 2020. This expense transferred to the Member Cities beginning in January 2019.

**Texas Municipal Power Agency
Operating Information
(Dollars in Thousands)**

	For the Years-Ended September 30,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues			
Power Sales	\$ 5,549	\$ 7,208	\$ 7,246
Transmission Revenues	34,428	46,812	45,587
Other Operating Revenues	85	217	473
Total Operating Revenues	<u>40,062</u>	<u>54,237</u>	<u>53,306</u>
Operating Expenses			
Power Production - Operation and Maintenance	2,402	4,048	5,106
Transmission - Operation and Maintenance	4,196	3,213	3,379
Administrative and General	2,392	3,783	3,602
Transmission System Access Fee	-	1	5,972
Decommissioning Cost	-	-	126,444
Depreciation Expense	8,089	8,057	7,559
Total Operating Expenses	<u>17,079</u>	<u>19,102</u>	<u>152,062</u>
Income (Loss) from Operations	<u>22,983</u>	<u>35,135</u>	<u>(98,756)</u>
Other Income (Expense)			
Investment Revenue	21	421	1,116
Member Contributions	-	1,752	106,402
Capital Contributions	103	3,438	(25)
Miscellaneous Other Income (Expense)	(2,091)	(1,205)	(55)
Total Other Income (Expense)	<u>(1,967)</u>	<u>4,406</u>	<u>107,438</u>
Interest Charges			
Interest Expense on Debt	8,844	9,628	9,868
Bond Issuance Cost	438	-	-
Amortization of Debt Premium and Gain on Advance Refunding of Debt	777	(650)	(729)
Total Interest Charges	<u>10,059</u>	<u>8,978</u>	<u>9,139</u>
Impact of Regulatory Assets on Change in Net Position	<u>(1,644)</u>	<u>(938)</u>	<u>176</u>
Net Revenues (Expenses) before Refunds	<u>9,313</u>	<u>29,625</u>	<u>(281)</u>
Refunds to Member Cities	<u>(22,812)</u>	<u>(26,350)</u>	<u>(29,407)</u>
Change in Net Position before Gain on Sale of Plant	<u>(13,499)</u>	<u>3,275</u>	<u>(29,688)</u>
Gain on Sale of Plant	<u>18,304</u>	<u>-</u>	<u>-</u>
Change in Net Position (Deficit)	<u>4,805</u>	<u>3,275</u>	<u>(29,688)</u>
Net Position (Deficit)			
Beginning Balance	<u>(12,198)</u>	<u>(15,473)</u>	<u>14,215</u>
Ending Balance	<u>\$ (7,393)</u>	<u>\$ (12,198)</u>	<u>\$ (15,473)</u>

Operating Information
Explanations of Significant Variances Between FY 2020 and FY 2021

Power Sales decreased \$1.7 million (23%) due primarily to lower demand charges as a result of the sale of the plant in February 2021.

Transmission Revenues decreased \$12.4 million (26%) due to the Agency's interim rate filing that was approved by the PUCT in December 2020 which effectively reduced TMPA's rate of return.

Other Operating Revenues decreased \$0.1 million (61%) due to the cessation of lake revenues following the sale of the plant in February 2021.

Power Production – Operation and Maintenance decreased \$1.6 million (41%) due to the sale of the plant in February 2021.

Transmission – Operation and Maintenance increased \$1.0 million (31%) because beginning in FY 2021, transmission property insurance premiums were charged directly to the Transmission business unit as opposed to being allocated from administration and general like in past years. This was somewhat offset by less than anticipated O&M repair due to substation experiencing fewer equipment failure.

Administrative and General decreased \$1.4 million (37%) due to numerous reasons including property insurance premiums being directly charged to the respective business units beginning in FY 2021 and the sale of the plant in February 2021.

Investment Revenue decreased \$0.4 million (95%) due primarily to drastically reduced interest rates resulting from the COVID-19 pandemic.

Member Contributions decreased \$1.8 million (100%) due to the sale of the plant in February 2021, which eliminated the Agency's decommissioning liability and receivable from the Member Cities (see Note 10 for further detail).

Capital Contributions decreased \$3.3 million (97%) due to the receipt of assets from third parties that paid for the construction of and/or improvements to the Agency's Transmission system in FY 2020 that did not repeat in FY 2021.

Miscellaneous Other Income (Expense) increased \$0.9 million (74%) due to a significant amount of Transmission retirements in FY 2021 that resulted in losses.

Impact of Regulatory Assets on Change in Net Position increased \$0.7 million (75%) due primarily to changes in the Mine reclamation liability and recoveries.

Refunds to Member Cities decreased \$3.5 million (13%) due to the Agency's interim rate filing that was approved by the PUCT in December 2020 which resulted in a lower distribution of transmission revenues to the Member Cities. This decrease is partially offset by a distribution of excess Agency working capital in FY 2021 that did not occur in FY 2020.

Gain on Sale of the Plant increased \$18.3 million due to the sale of the plant in February 2021.

Operating Information
Explanations of Significant Variances Between FY 2019 and FY 2020

Other Operating Income decreased \$0.3 million (54%) due primarily to lower fly ash sales in FY 2020 compared to FY 2019. In FY19, the fly ash bins were emptied out following the summer of 2018 operations, resulting in \$0.3 million in revenue. In FY20, the minimal amount of fly ash income is from the reclaimed fly ash coming out of Site F Landfill.

Transmission System Access Fee decreased \$6.0 million (100%) due to the expense being directly billed to the Member Cities effective January 1, 2019.

Decommissioning Cost decreased \$126.4 million (100%) due to the decommissioning/environmental remediation liability booked in accordance with GASB 83 at the end of FY 2019 (see Note 10 for further detail).

Investment Revenue decreased \$0.7 million (62%) due primarily to drastically reduced interest rates resulting from the COVID-19 pandemic.

Member Contributions decreased \$104.7 million (98%) due to the Agency booking a receivable from the Member Cities in FY 2019 which corresponds to the decommissioning liability discussed above (see Note 10 for further detail).

Capital Contributions increased \$3.5 million (13,797%) due to the receipt of assets from third parties that paid for the construction of and/or improvements to the Agency's Transmission system in FY 2020.

Miscellaneous Other Income (Expense) decreased \$1.1 million (2,091%) due to a significant amount of Transmission retirements in FY 2020 that resulted in losses.

Impact of Regulatory Assets on Change in Net Position increased \$1.1 million (633%) due primarily to changes in the Mine reclamation liability and recoveries.

Refunds to Member Cities decreased \$3.1 million (10%) due to only a distribution of Transmission revenues in FY 2020. In FY 2019, there was also a distribution of excess Agency working capital.

TEXAS MUNICIPAL POWER AGENCY

BASIC FINANCIAL STATEMENTS

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

Assets

	September 30,	
	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Current Unrestricted Assets		
Cash and Cash Equivalents	\$ 24,026	\$ 28,672
Accounts Receivable and Other	7,972	10,617
Asset Held for Sale	22,663	-
Prepays	322	748
Total Current Unrestricted Assets	<u>54,983</u>	<u>40,037</u>
Current Restricted Assets		
Cash and Cash Equivalents	981	9,389
Member Receivable - Decommission Obligation	-	16,350
Total Current Restricted Assets	<u>981</u>	<u>25,739</u>
Total Current Assets	<u>55,964</u>	<u>65,776</u>
Noncurrent Assets		
Electric Plant		
In Service	313,704	370,631
Less Accumulated Depreciation	<u>(150,536)</u>	<u>(180,079)</u>
Total Net Plant	163,168	190,552
Construction Work in Progress	<u>5,495</u>	<u>6,892</u>
Total Electric Plant	<u>168,663</u>	<u>197,444</u>
Other Assets		
Restricted Cash and Cash Equivalents	5,072	17,548
Restricted Member Receivable - Decommission Obligation	-	83,027
Regulatory Assets	<u>3,214</u>	<u>4,369</u>
Total Other Assets	8,286	104,944
Total Noncurrent Assets	<u>176,949</u>	<u>302,388</u>
Total Assets	<u><u>\$ 232,913</u></u>	<u><u>\$ 368,164</u></u>

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

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

Liabilities and Net Position

	September 30,	
	<u>2021</u>	<u>2020</u>
Liabilities		
Current Liabilities		
Current Maturities of Revenue Bonds	\$ 6,395	\$ 4,580
Accrued Interest Payable	448	754
Accounts Payable	735	2,313
Accrued Distribution to Member Cities	22,812	26,350
Accrued Compensation and Pension Benefits	216	307
Accrued Mine Reclamation Cost	1,606	2,551
Decommissioning Cost	-	25,954
Total Current Liabilities	<u>32,212</u>	<u>62,809</u>
Noncurrent Liabilities		
Long-Term Debt		
Revenue Bonds	181,340	177,985
Unamortized Premium	9,578	6,683
Tax Exempt Commercial Paper	9,400	31,100
Total Long-Term Debt	<u>200,318</u>	<u>215,768</u>
Other Employee Retirement Benefits	1,608	1,819
Decommissioning Cost	-	99,966
Total Other Long-Term Obligations	<u>1,608</u>	<u>101,785</u>
Total Noncurrent Liabilities	<u>201,926</u>	<u>317,553</u>
Total Liabilities	<u>234,138</u>	<u>380,362</u>
Deferred Inflows of Resources		
Deferred Gain on Refunding	6,168	-
Total Deferred Inflows of Resources	<u>6,168</u>	<u>-</u>
Net Position (Deficit)		
Net Investment in Capital Assets	(38,165)	(4,220)
Unrestricted	30,772	(7,978)
Total Net Position (Deficit)	<u>(7,393)</u>	<u>(12,198)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	<u>\$ 232,913</u>	<u>\$ 368,164</u>

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,	
	<u>2021</u>	<u>2020</u>
Operating Revenues		
Power Sales	\$ 5,549	\$ 7,208
Transmission Revenues	34,428	46,812
Other Operating Revenues	85	217
Total Operating Revenues	<u>40,062</u>	<u>54,237</u>
Operating Expenses		
Power Production - Operation and Maintenance	2,402	4,048
Transmission - Operation and Maintenance	4,196	3,213
Administrative and General	2,392	3,783
Transmission System Access Fee	-	1
Depreciation Expense	8,089	8,057
Total Operating Expenses	<u>17,079</u>	<u>19,102</u>
Income from Operations	<u>22,983</u>	<u>35,135</u>
Other Income (Expense)		
Investment Revenue	21	421
Member Contributions	-	1,752
Capital Contributions	103	3,438
Miscellaneous Other Income (Expense), Net	(2,091)	(1,205)
Total Other Income (Expense)	<u>(1,967)</u>	<u>4,406</u>
Interest and Finance Charges		
Interest Expense on Debt	8,844	9,628
Bond Issuance Cost	438	
Amortization of Debt Premium and Deferred Gain on Refunding of Debt	777	(650)
Total Interest and Finance Charges	<u>10,059</u>	<u>8,978</u>
Impact of Regulatory Assets on Change in Net Position	<u>(1,644)</u>	<u>(938)</u>
Net Revenues before Refunds	9,313	29,625
Refunds to Member Cities	<u>(22,812)</u>	<u>(26,350)</u>
Change in Net Position (Deficit) before Gain on Sale of Plant	(13,499)	3,275
Gain on Sale of Plant	<u>18,304</u>	<u>-</u>
Change in Net Position (Deficit)	4,805	3,275
Net Position (Deficit)		
Beginning Balance	<u>(12,198)</u>	<u>(15,473)</u>
Ending Balance	<u>\$ (7,393)</u>	<u>\$ (12,198)</u>

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,	
	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Cash Received from Power Sales	\$ 5,549	\$ 7,209
Cash Received from Transmission Revenues	37,122	46,697
Cash Received from Other Revenues	316	526
Cash Received from TxDOT	55	-
Cash Paid to Suppliers	(7,800)	(9,892)
Cash Paid to Employees	(2,271)	(2,422)
Net Cash Provided by Operating Activities	<u>32,971</u>	<u>42,118</u>
Cash Flows from Non-Capital and Related Financing Activities		
Proceeds from Member Cities	28,146	7,026
Interest from Member Cities	-	1,752
Escrow Provided to Purchaser of Generation Plant	(36,385)	-
Net Cash Provided by (Used for) Non-Capital and Related Financing Activities	<u>(8,239)</u>	<u>8,778</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Issuance of Debt	200,810	7,700
Construction Work in Progress	(6,102)	(13,975)
Payment of Principal on Debt	(217,340)	(4,360)
Debt issuance costs	(438)	-
Premiums/Discounts	8,286	-
Interest Paid on Debt	(9,150)	(9,646)
Refunds to Member Cities	(26,350)	(29,407)
Net Cash Used for Capital and Related Financing Activities	<u>(50,284)</u>	<u>(49,688)</u>
Cash Flows from Investing Activities		
Interest and Dividends on Investments	22	421
Net Cash Provided by Investing Activities	<u>22</u>	<u>421</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(25,530)	1,629
Beginning Cash and Cash Equivalents Balance	<u>55,609</u>	<u>53,980</u>
Ending Cash and Cash Equivalents Balance	<u><u>\$ 30,079</u></u>	<u><u>\$ 55,609</u></u>

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

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

	2021	2020
Income From Operations	\$ 22,983	\$ 35,135
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:		
Depreciation Expense	8,089	8,057
Change in Accounts Receivables and Other	3,192	(184)
Change in Accrued Mine Reclamation Cost	(1,433)	(240)
Change in Accounts Payable	16	(294)
Change in Decommissioning Liability	(107)	(525)
Change in Accrued Compensation and Fringe Benefits	-	(138)
Miscellaneous Non-Operating Activities	231	307
	<u>9,988</u>	<u>6,983</u>
Total	<u>\$ 32,971</u>	<u>\$ 42,118</u>

Supplemental Cash Flows Information

Capital invoices totaling \$173,539 and \$1,873,971 are included in accounts payable at September 30, 2021 and 2020, respectively. In FY 2020, the Agency was contributed \$3.4 million of transmission related capital assets.

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. In 2015, the Legislature enacted Subchapter C-1, Chapter 163, Utilities Code (the "Act"). The Act permits the Member Cities to adopt concurrent ordinances electing for TMPA to be governed by the Act, which was done by the Member Cities in 2016. 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. In comparison to Subchapter C which previously governed TMPA, the Act, among other things, expands TMPA's authority in relation to the sale of electric facilities, authorizes the Member Cities to modify the governance structure of TMPA, and provides a procedure under which TMPA may be dissolved.

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 were 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 TMPA's debts.

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 was obligated to take or pay for a specified percentage of electricity from TMPA's generating facility. Those percentages were 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.

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, was 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 was September 1, 2040. Two additional series of Transmission Debt, one of which is a revolving note program, were issued on December 1, 2017. On July 29, 2021, TMPA issued an additional series of Transmission Debt. Proceeds from this series were used to refund the two previously issued series of long-term Transmission Debt and a portion of the Revolving Note Program.

The term of the Contract was for a period of 35 years from September 1, 1976, or until all bonds and certain other indebtedness of the Agency were paid, whichever occurred later. On September 1, 2018, the "Debt Discharge Date" occurred, i.e., the date on which all Generation Debt of TMPA was paid off. On this date, the Contract expired as to the City of Greenville, but was extended by, and only as to, the cities of Bryan, Denton, and Garland pursuant to the Joint Operating Agreement, discussed below, to September 30, 2018. As of September 30, 2018, the Contract had expired as to all four Cities.

Effective on September 1, 2018, budgets and charges to recover TMPA's costs began to be adopted pursuant to a Joint Operating Agreement between TMPA and the Member Cities, which became effective on September 1, 2016. See Note 7 for a description of the Joint Operating Agreement.

Until September 18, 2018, TMPA operated 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. On June 6, 2019, the TMPA Board of Directors voted to permanently retire GCSES. On February 10, 2021, TMPA, pursuant to an Asset Purchase Agreement ("APA"), sold GCSES to Gibbons Creek Environmental Redevelopment Group ("GCERG"). Under the APA, GCERG is responsible for the decommissioning and environmental remediation of GCSES. (See Note 10)

TMPA also owns and operates electric transmission assets in the State of Texas. These assets provide wholesale transmission services to distribution service providers in the Electric Reliability Council of Texas ("ERCOT") system.

Regulation

The Agency's Board of Directors monitors the decommissioning activities required of GCERG. 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. The reclamation of the mine is regulated by the Railroad Commission of Texas.

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, liabilities and deferred inflows of resources 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 receipts are deferred to the extent that they are expected to cover costs to be incurred in the future.

GASB Pronouncements Effective in FY 2021

GASB Statement No. 84 (“GASB 84”), Fiduciary Activities, establishing criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries. The Agency began application of GASB No. 84 at the beginning of FY 2021. Implementation of GASB 84 had no impact on the Agency.

GASB Statement No. 97 (“GASB 97”), Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This Statement will result in more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. The Agency began application of GASB No. 97 at the beginning of FY 2021. Implementation of GASB 97 had no impact on the Agency.

GASB Pronouncements Effective in FY 2020

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period (“GASB 89”). GASB 89 requires that interest costs incurred before the end of a construction period be recognized as expenses in the period in which the costs are incurred. As a result, the interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Agency began application of GASB No. 89 at the beginning of FY 2020.

GASB Statement No. 90 (“GASB 90”), Majority Equity Interests, improving the consistency and comparability of reporting of a government’s majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Implementation of GASB 90 had no impact on the Agency.

GASB Pronouncements Issued but Not Yet Effective

In June 2017, GASB issued Statement No. 87 (“GASB 87”), Leases. GASB 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 is effective for the fiscal period ending September 30, 2022, however implementation will not have a material impact on the Agency.

In May 2019, GASB issued Statement No. 91 (“GASB 91”), Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with: (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB 91 is effective for the fiscal year ending September 30, 2022, however implementation will have no

impact on the Agency.

In January 2020, GASB issued Statement No. 92 ("GASB 92"), Omnibus 2020. The primary objectives are to enhance comparability in accounting and financial reporting and improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 92 is effective for the fiscal year ended September 30, 2022, but is not anticipated to have a significant impact, if any, on the Agency.

In March 2020, GASB issued Statement No. 93 ("GASB 93"), Replacement of Interbank Offered Rates. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021. GASB 93 is effective for the fiscal year ending September 30, 2022, however implementation will have no impact on the Agency.

In March 2020, GASB issued Statement No. 94 ("GASB 94"), Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting associated with these arrangements. GASB 94 is effective for the fiscal year ending September 30, 2024, however implementation will have no impact on the Agency.

In May 2020, GASB issued Statement No. 95 ("GASB 95"), Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this Statement is to provide temporary relief to governments in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions pronouncements are postponed by one year.

In May 2020, GASB Statement No. 96 ("GASB 96"), Subscription-Based Information Technology Arrangements (SBITAs) will be effective for the Agency's September 30, 2023 year end. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset and corresponding liability; (3) provides the capitalization criteria for outlays other than subscription payments; and (4) requires note disclosures regarding a SBITA. An analysis will need to be performed on the Agency's SBITAs, if any, prior to October 1, 2022.

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. Donated capital assets are recorded at acquisition value. Subsequent to the closing of the mining operation and recognition of the related impairment in 1996, mine-related assets were 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 and that have a useful life greater than one year to be capitalized.

Electric plant components, net of accumulated depreciation as of September 30, 2021 and 2020 are as follows (in thousands):

Summary of Additions, Less Transfers and Retirements to Plant

	Oct. 1, 2020	Additions	Transfers	Retirements /Disposals	Sept. 30, 2021
Electric Plant					
Transmission	\$ 311,537	\$ -	\$ 5,692	\$ (7,091)	\$ 310,138
Mine-Related ⁽¹⁾	52,632	-	(52,489)	(143)	-
Other	5,544	-	-	(2,819)	2,725
Intangible Assets	918	-	-	(77)	841
Total Electric Plant	370,631	-	(46,797)	(10,130)	313,704
Accumulated Depreciation					
Transmission	(146,236)	(7,544)	(33)	4,912	(148,901)
Mine-Related ⁽¹⁾	(29,858)	-	29,858	-	-
Other	(3,909)	(545)	-	2,819	(1,635)
Intangible Assets	(76)	-	-	76	-
Total Accumulated Depreciation	(180,079)	(8,089)	29,825	7,807	(150,536)
Construction Work in Progress	6,892	4,402	(5,691)	(108)	5,495
Total Electric Plant, Net of Accumulated Depreciation	197,444	(3,687)	(22,663)	(2,431)	168,663
	Oct. 1, 2019	Additions	Transfers		Sept. 30, 2020
Electric Plant					
Transmission	\$ 304,459	\$ -	\$ 15,028	\$ (7,950)	\$ 311,537
Mine-Related	52,632	-	-	-	52,632
Other	6,017	-	-	(473)	5,544
Intangible Assets	918	-	-	-	918
Total Electric Plant	364,026	-	15,028	(8,423)	370,631
Accumulated Depreciation					
Transmission	(145,093)	(7,512)	-	6,369	(146,236)
Mine-Related	(29,858)	-	-	-	(29,858)
Other	(3,364)	(545)	-	-	(3,909)
Intangible Assets	(76)	-	-	-	(76)
Total Accumulated Depreciation	(178,391)	(8,057)	-	6,369	(180,079)
Construction Work in Progress	7,136	14,784	(15,028)	-	6,892
Total Electric Plant, Net of Accumulated Depreciation	\$ 192,771	\$ 6,727	\$ -	\$ (2,054)	\$ 197,444

(1) During FY 2021, the Board of Directors entered into a contract to sale the mine. As required by accounting standards, the net book value of the mine (\$22,663) is now recorded as an asset held for sale on the accompanying statement of net position.

Depreciation

Depreciation is calculated using the straight-line method over the estimated useful lives of the various classes of plant, which are as follows:

Transmission Assets 40 Years
Other Utility Plant 5 to 20 Years

Annual depreciation provisions expressed as a percentage of average depreciable plant were approximately 2.6% for both 2021 and 2020. During 2021 and 2020, depreciation expense was \$8,089,331 and \$8,057,246, respectively. See Note 7 for additional information regarding generation plant impairment.

Summary of Additions, Less Transfers and Retirements

As of September 30, 2021, accumulated depreciation activity of \$0.3 million includes depreciation expense of \$8.1 million, and retirements of \$7.8 million. As of September 30, 2020, accumulated depreciation activity of \$1.7 million includes depreciation expense of \$8.1 million, and retirements of \$6.4 million.

Investments

Investments are stated at amortized cost and consist of investments in the Texas Local Government Investment Pool ("TexPool") and a money market account held by a broker.

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 measured at amortized cost as the pool meets requirements of GASB No. 79. Investment objective and strategies are to seek preservation of principal, liquidity, and current income. The pool offers same day access to investment funds.

Charges

TMPA's charges billed to the Cities are designed to cover annual costs as defined in the Resolutions, the Contract, and the Joint Operating Agreement. 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 1.26 times debt service requirements. The charges 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 excess funds to the Cities after ensuring that debt service coverage requirements are met, and certain reserves are maintained.

Revenues

Power revenues 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. Beginning September 1, 2018, in accordance with the Joint Operating Agreement, these fixed costs are charged separately by business unit: Generation, Transmission, and Mine. The energy component was based on a per unit generation amount and was recognized as generation occurred. As of October 2018, the Agency no longer produces electricity and therefore, there is no longer an energy component. 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. Production operating and maintenance, transmission operating and maintenance, general and administrative, transmission system access fee and depreciation on the Agency's electric plant assets are classified as operating expenses. All other income and expenses, including investment revenues, interest expense, amortization of debt premiums and gain on refundings, regulatory asset activity, member contributions, and refunds to Member Cities are considered non-operating activity. Although GCSES has been sold, the Generation division continues to incur expenses related to overseeing the decommissioning of the assets as completed by the new owner (as required by the Asset Purchase Agreement). These expenses are recovered as part of the Generation charge to the Member Cities.

Contributed Capital

Capital assets received from third parties who constructed and/or made improvements to the Agency's Transmission system are classified as contributed capital. These funds are recognized in the year in which they are received, as the assets have been fully conveyed to the Agency.

Regulatory Assets

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 regulatory assets that would otherwise be charged to expense. Such regulatory 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 other postemployment benefits. Estimated mine reclamation costs will be recovered through fiscal budget components.

Debt-Related Costs

Bond premiums and discounts are amortized over the terms of related bond issues under the effective interest method. Excess cost on advance refunding of debt is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Statements of Cash Flows

The Agency considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2021 and 2020, cash equivalents include amounts held at TexPool.

Net Position

Net position is displayed in two components – net investment in capital assets and unrestricted. Components of net investment in capital assets include electric plant and intangible assets net of depreciation, which are reduced by outstanding bond and revolving note liabilities related to those assets. The outstanding liabilities are calculated net of the investments included in restricted assets.

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

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as needed.

3. Restricted Assets

Restricted assets include those assets comprising the Subordinate Lien Bond (Series 2010 Bonds), Subordinate Lien Reserve (Series 2010 Bonds), Subordinate Lien Bond (Series 2017 Bonds), Subordinate Lien Reserve (Series 2017 Bonds), Subordinate Lien Bond (Series 2021 Bonds), and Project Construction 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.

Subordinate Lien Bond Fund (Series 2010 Bonds) and Subordinate Lien Reserve Fund (Series 2010 Bonds) assets were for use in paying the interest and principal of outstanding Series 2010 Bonds. Subordinate Lien Bond Fund (Series 2017 Bonds) and Subordinate Lien Reserve Fund (Series 2017 Bonds) assets were for use in paying the interest and principal of outstanding Series 2017 Bonds. These two series of bonds were refunded on July 29, 2021 with the issuance of the Series 2021 Bonds.

Subordinate Lien Bond Fund (Series 2021 Bonds) assets are for use in paying the interest and principal of outstanding Series 2021 Bonds. Project Construction Fund assets are available to pay costs associated with the Series "A" Notes.

Restricted assets also include the Indemnity Reserve Account, held in escrow, as required by Section 6.5 of the JOA. The purpose of these assets is to fund TMPA's defense and indemnity obligations to the Member Cities under Section 6.3 of the JOA. Additionally, in prior years, restricted assets included member contributions earmarked for decommissioning activities. With the sale of the plant in February 2021, TMPA's decommissioning liabilities were eliminated. All associated restricted assets from member contributions were used to close the transaction with the buyer of the plant.

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

Fund Type:	2021	2020
Subordinate Lien Bond Fund (Series 2010 Bonds)	\$ -	\$ 833
Subordinate Lien Reserve Fund (Series 2010 Bonds)	-	8,226
Subordinate Lien Bond Fund (Series 2017 Bonds)	-	544
Subordinate Lien Reserve Fund (Series 2017 Bonds)	-	4,010
Subordinate Lien Bond Fund (Series 2021 Bonds)	981	-
Project Construction Funds (Series "A" Notes)	72	71
Member Contributions - Decommissioning Activities	-	8,254
Indemnity Reserve Account	5,000	4,999
Total Funds	\$ 6,053	\$ 26,937

4. Investments

As of September 30, 2021 and 2020, the Agency's portfolio is invested in the Texas Local Government Investment Pool ("TexPool"), a local government investment pool, and a money market account. These investments are stated at amortized cost. Balances maintained at TexPool as of September 30, 2021 and 2020 were \$24,212 and \$49,766, respectively. Balances held in money markets as of September 30, 2021 and 2020, were \$5,000 and \$4,999, respectively.

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.

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

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.

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 the Federal Deposit Insurance Corporation ("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 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.

As of September 30, 2021 and 2020, TMPA had recorded cash deposits of \$0.87 million and \$0.84 million, respectively. Bank statement balances as of September 30, 2021 and 2020, were \$1.10 million and \$1.18 million, respectively, with the differences being comprised of outstanding checks and deposits in transit.

5. Long-Term Debt

The Agency's long-term debt consists of the following at September 30, 2021 and 2020 (in thousands):

	Outstanding October 1, 2020	Issued/ Increased	Redeemed/ Decreased	Accretion/ Amortization Premium/ Discount	Outstanding September 30, 2021	Principal Due Within One Year
Revenue Bonds						
Series						
2010	\$ 101,217	\$ -	\$ (100,130)	\$ (1,087)	\$ -	\$ -
2017	88,031	-	(82,435)	(5,596)	-	-
2021	-	202,356	(4,775)	(268)	197,313	6,395
Total Revenue Bonds	189,248	202,356	(187,340)	(6,951)	197,313	6,395
Series "A" Revolving Notes	31,100	8,300	(30,000)	-	9,400	-
Total Long-term Debt	\$ 220,348	\$ 210,656	\$ (217,340)	\$ (6,951)	\$ 206,713	\$ 6,395

	Outstanding October 1, 2019	Issued/ Increased	Redeemed/ Decreased	Accretion/ Amortization Premium/ Discount	Outstanding September 30, 2020	Principal Due Within One Year
Revenue Bonds						
Series						
2010	\$ 104,368	\$ -	\$ (2,925)	\$ (226)	\$ 101,217	\$ 3,070
2017	89,890	-	(1,435)	(424)	88,031	1,510
Total Revenue Bonds	194,258	-	(4,360)	(650)	189,248	4,580
Series "A" Revolving Notes	23,400	7,700	-	-	31,100	-
Total Long-term Debt	\$ 217,658	\$ 7,700	\$ (4,360)	\$ (650)	\$ 220,348	\$ 4,580

Revenue Bonds outstanding, as of September 30, 2021 and 2020, respectively, are (in thousands):

Series	Current Amount Outstanding 2021	Long-Term Amount Outstanding 2021	Maturity		Range of Interest Rates		Earliest Redemption Date
			From	To	From	To	
2021	6,395	181,340	2021	2051	2.000	3.000	2023
Total	<u>\$ 6,395</u>	<u>\$ 181,340</u>					

Series	Current Amount Outstanding 2020	Long-Term Amount Outstanding 2020	Maturity		Range of Interest Rates		Earliest Redemption Date
			From	To	From	To	
2010	\$ 3,070	\$ 97,060	2012	2040	3.000	5.000	2012
2017	1,510	80,925	2019	2047	5.000	5.000	2019
Total	<u>\$ 4,580</u>	<u>\$ 177,985</u>					

Debt service requirements for the revenue bonds for the next thirty years as of September 30, 2021, are as follows (in thousands):

Year	Principal	Interest	Total
2022	\$ 6,395	\$ 5,378	\$ 11,773
2023	6,575	5,186	11,761
2024	6,780	4,988	11,768
2025	6,980	4,785	11,765
2026	7,190	4,576	11,766
2027 - 2031	39,315	19,510	58,825
2032 - 2036	45,325	13,521	58,846
2037 - 2041	43,925	6,912	50,837
2042 - 2046	16,260	2,616	18,876
2047 - 2051	8,990	569	9,559
	187,735	\$ 68,041	\$ 255,776
Unamortized Premium	<u>9,578</u>		
Total	<u>\$ 197,313</u>		

On December 1, 2017, TMPA issued an initial installment of \$10,100,000 of Subordinated System Net Revenue/Transmission Revenue Converting Security Direct Purchase Revolving Notes, Series A Notes. Proceeds from this issuance were used to pay for ongoing Transmission projects that had not yet been placed in service. On August 1, 2018, August 1, 2019 and August 4, 2020, TMPA issued additional installments of \$9,400,000, \$3,900,000, and \$7,700,000, respectively. As part of the issuance of the Series 2021 Bonds, discussed below, \$30 million of the Series A Notes were refunded on July 29, 2021. On August 10, 2021, TMPA issued an additional installment of \$8,300,000 of the Series A Notes to fund new Transmission projects. With capacity of \$60,000,000, TMPA will continue to issue the Series A Notes as funds are necessary for future Transmission projects.

On July 29, 2021, TMPA issued \$192,510,000 of Transmission Refunding Bonds, Series 2021. These bonds were issued at a premium of \$9,846,294. Proceeds from this issuance were used to refund the Series 2010 and 2017 Bonds and \$30 million of the Series A Notes. The Series 2021 Bonds are secured by a pledge of net revenues of the Agency's transmission system.

As a result of the refunding, the Agency reduced its total debt services requirements by \$85,928,364, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$67,292,000 and a net present benefit of approximately \$51,255,000 after factoring in the use of existing debt service funds.

2021 Bonds are subject to optional redemption prior to their scheduled maturity date subject to stated call premiums.

The Resolutions contain certain restrictions and covenants including TMPA's covenant to establish and maintain 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.

6. Employee Benefit Plans

Defined Contribution Plan

TMPA has a single employer 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 and Charles Schwab serves as the trustee. 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%. Beginning October 1, 2017, the Plan was amended to vest participants at 100% when they voluntarily sever service. Participants are immediately vested in their voluntary contributions plus actual earnings thereon.

Membership in the plan was 44 and 54 participants as of September 30, 2021 and 2020, respectively.

Retirement plan costs for 2021 and 2020 were as follows (in thousands):

	2021	%	2020	%
Agency's total payroll	\$1,901	-	\$2,206	-
Agency's covered payroll	\$1,679	100%	\$2,028	100%
Agency's contribution	\$168	10%	\$203	10%
Employees' contribution	\$21	1.3%	\$16	.8%

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. Employees may contribute up to 100% of pre-deferral taxable income to a maximum of \$19,500 and \$19,500 for calendar years 2021 and 2020, respectively. A "catch-up" provision, which allows an additional contribution of \$6,500 and \$6,500 for 2021 and 2020, respectively, 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, 2021 and 2020, participants numbered 9 and 10 and participant contributions were \$162,467 and \$238,468, 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 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). For retiree medical, the Agency contributes a set monthly allowance to the employee and dependent, if elected, through a Retiree Health Reimbursement Account (HRA). 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 publicly available actuarial report of its plan. There are no assets accumulated in a trust that meets the criteria of paragraph 4 of GASB 75.

For active and retired employees, the Agency paid 100% of the cost of life insurance. Retiree life insurance coverage was \$5,000 at time of retirement reducing to \$3,350 once retiree reached age 70 and \$2,500 at age 75. Effective the beginning of FY 2021, TMPA no longer offers life insurance coverage for retirees. For active employees in 2021, the Agency paid 88% and 77% of the cost of employee medical and dental benefits, respectively. For active employees in 2020, the Agency paid 84% and 77% of the cost of employee medical and dental benefits, respectively. For retired employees in 2021 and 2020, respectively, the Agency paid 73% and 64% of the cost of dental benefits. As discussed above, for retiree medical, the Agency contributes a set monthly allowance to the employee and dependent, if elected, through a Retiree HRA.

A measurement date of May 1, 2021 was used for the September 30, 2021 liability and expense. The information that follows was determined as of a valuation date of May 1, 2020.

Membership in the OPEB by membership class at May 1, 2020 are as follows:

	<u>Life Insurance</u>	<u>Medical and/or Dental</u>
Active employees	3	3
Inactive employees or beneficiaries currently receiving benefits	<u>99</u>	<u>99</u>
Total	<u>102</u>	<u>102</u>

Contributions: For the years ended September 30, 2021 and 2020, the Agency contributed \$117,300 and \$121,050, respectively, to retirees' HRA accounts. Contributions are made on a pay as you go basis.

Actuarial Assumptions: The total OPEB liability in the May 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.40%
Projected salary increase	3.40%
Discount Rate	The discount rate used to measure the Total OPEB Liability as of May 1, 2021 was 2.27%. The discount rate used to measure the Total OPEB Liability as of May 1, 2020 was 2.56%.
Actuarial cost method	Entry Age Normal
Eligibility	a. Full-time regular employees who were hired prior to October 1, 1993 and are age 55 or older with at least 20 years of service at retirement. b. Full-time regular employees who are both age 60 or older and have at least 10 years of service as of October 1, 2016. c. Employees not meeting a. or b. are not eligible for retiree benefits (medical, dental, or life insurance).
Mortality	<u>Pre-Retirement Mortality:</u> Pri-2012 Total Dataset Employee Table projected from the 2012 base year using the Scale MP-2019 mortality improvement rates <u>Post-Retirement Mortality:</u> <u>Retired Members:</u> Pri-2012 Total Dataset Retiree Table projected from the 2012 base year using the Scale MP-2019 mortality improvement rates <u>Spouses of Retired Members:</u> Pri-2012 Total Dataset Contingent Survivor Table projected from the 2012 base year using the Scale MP-2019 mortality improvement rates

Discount Rate: The discount rate was based on the municipal bond rate in the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality.

Changes in the Total OPEB Liability: Changes in the total OPEB liability through the year ended September 30, 2021 were as follows:

	<u>Increase (Decrease) Total OPEB Liability</u>
Balances as of 9/30/20 (Based on 5/1/20 Measurement Date)	\$ 1,818,678
Changes for the year:	
Service Cost	1,431
Interest on Total OPEB Liability	44,803
Change in Benefit Terms	(157,996)
Changes in Assumptions	41,060
Benefit Payments	<u>(140,000)</u>
Net changes	<u>(210,702)</u>
Balances as of 9/30/21 (Based on 5/1/21 Measurement Date)	<u><u>\$ 1,607,976</u></u>

Changes in the Total OPEB Liability: Changes in the total OPEB liability through the year ended September 30, 2020 were as follows:

	<u>Increase (Decrease) Total OPEB Liability</u>
Balances as of 9/30/19 (Based on 5/1/19 Measurement Date)	\$ 1,966,413
Changes for the year:	
Service cost	2,738
Interest on total OPEB liability	71,862
Changes of benefit terms	6,597
Difference between expected and actual experience	(194,424)
Changes in assumptions	111,600
Benefit payments	<u>(146,108)</u>
Net changes	<u>(147,735)</u>
Balances as of 9/30/20 (Based on 5/1/20 Measurement Date)	<u><u>\$ 1,818,678</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates: The total OPEB liability of the Agency has been calculated using a discount rate of 2.27%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease	Current Discount	1% Increase
Total OPEB liability	\$ 1,765,259	\$ 1,607,976	\$ 1,473,906

The total OPEB liability of the Agency has been calculated using health care cost trend rates of 5%. The following presents the total OPEB liability using health care cost trend rates 1% higher and 1% lower than the current health care cost trend rates.

	1% Decrease	Current Discount	1% Increase
Total OPEB liability	\$ 1,574,732	\$ 1,607,976	\$ 1,647,297

OPEB Expense (Income): For the years ended September 30, 2021 and 2020, the Agency recognized OPEB expense, as measured in accordance with GASB Statement No. 75, of (\$70,702) and (\$1,627), respectively.

In accordance with rate making methodology, the cost of this Program is unfunded until benefits are needed. Thus, unfunded expenses are treated as regulatory assets similar to other long-term obligations.

Medical and Dental Benefits

The Agency's medical and dental plan is administered by large insurance companies. For active employees in 2021 and 2020, \$190,477 and \$197,698 was paid in medical expenses based on an average of 7 and 10 participants, respectively. Active participant medical premiums collected by the Agency in 2021 and 2020 were \$21,156 and \$30,772 resulting in a total cost to the Agency of \$169,321 and \$166,926, respectively. For retired employees in 2021 and 2020, \$117,300 and \$121,050, respectively, was contributed by the Agency to the retired employees and dependents, if elected, through a Retiree HRA. For active employees in 2021 and 2020, \$9,653 and \$10,664 was paid in dental expenses based on an average of 8 and 10 participants, respectively. Active participant dental premiums collected by the Agency in 2021 and 2020 were \$2,186 and \$2,459 resulting in a total cost to the Agency of \$7,467 and \$8,205, respectively. For retired employees in 2021 and 2020, \$25,679 and \$24,932 was paid in dental expenses based on an average of 31 participants each year. Retiree participant dental premiums collected by the Agency in 2021 and 2020 were \$6,837 and \$8,917 resulting in a total cost to the Agency of \$18,842 and \$16,015, respectively.

Vision Benefit

Beginning in 2014, the Agency offered a vision plan to its employees and retirees, which the costs of the premiums are 100% paid by employees and retirees electing such coverage.

Compensated Absences

TMPA accumulates PTO 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 PTO upon termination, no related liability is recorded. A summary of changes in accrued vacation for the years ended September 30, 2021 and 2020, is as follows (in thousands):

Fiscal Year	Beginning Liability	Vacation Accrued	Vacation Taken	Ending Liability
2021	\$146	\$84	(\$115)	\$115
2020	\$111	\$119	(\$84)	\$146

7. Commitments and Contingencies

- A. In connection with a court settlement entered into on July 19, 1978, TMPA was obligated to make certain payments to Grimes County and three school districts in Grimes County for as long as the GCSSES was in operation. GCSSES ceased operations in 2018, was retired in 2019, and was sold in 2021. No payments were required in 2021 or 2020.
- B. During 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 1995 and converted to PRB coal in 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. In connection with the Gibbons Creek Lignite Mine, TMPA is required to submit to the Texas Railroad Commission reclamation bonds to ensure that TMPA will reclaim all lands disturbed by mining operations in accordance with all applicable Federal and State laws. For this purpose, TMPA has on file with the Railroad Commission irrevocable letters of credit in the aggregate amount of \$9,900,000 outstanding.
- D. 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, 2021, 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.
- E. 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 and NERC. NERC has promulgated reliability standards pursuant to this law and new standards are anticipated. FERC and NERC have enforcement powers to ensure compliance with these standards. TMPA has implemented measures to comply with the existing standards and expects to remain in compliance as standards are promulgated in the future.

SB 3, enacted by the Texas Legislature and effective June 8, 2021, adds Section 38.075 to the Utilities Code. This new section (i) applies to MOU's, such as TMPA, that provide transmission service in the ERCOT power region (ii) requires the PUCT to adopt reliability standards to prepare for weather emergencies (iii) requires ERCOT to inspect the covered entities for compliance (iv) requires ERCOT to inform the PUCT of violations and (v)

authorizes the PUCT to impose an administrative penalty for each violation, not to exceed \$1M for each day of noncompliance. SB 3 required the PUCT to adopt the reliability standards within 6 months after the effective date of SB 3. On October 21, 2021, the PUCT complied with SB 3 by adopting a rule on weatherization, Substantive Rule 25.55. Substantive Rule 25.55 requires a transmission service provider among other things to: utilize best efforts to implement weather emergency preparation measures; confirm the ability of cold weather critical components to ensure the operation of substations during cold weather events; utilize best efforts to address any critical component failures that occurred due to winter weather conditions between November 30, 2020 and March 1, 2021; and provide training on winter weather preparations to relevant operational personnel. Under the Rule, each transmission service provider must file with the PUCT a compliance report by December 1, 2021. TMPA's transmission service operator routinely carries out the measures required by the Rule and consequently TMPA does anticipate any issues with compliance.

- F. 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 ("SP 50"). After the SP 50 embankment was constructed, TMPA decided to switch fuels from locally mined lignite to PRB 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.

Following construction of the SP 50 embankment, some construction waste piles were placed 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 removed and disposed of, submerged in the pond, or otherwise remediated.

In 2016, TMPA, in consultation with the Railroad Commission Staff, determined that it could comply with the applicable regulatory requirements by separating the waste piles from the banks of SP 50 and by vegetating the remaining islands. In 2017, TMPA obtained approval of this alternative plan and commenced the construction activities necessary for implementation of the alternative plan. The construction activities were completed in 2018. TMPA submitted the application for bond release relating to SP 50 on October 12, 2021.

- G. In 2016 and 2017, the Agency issued requests for proposals ("RFPs") regarding the proposed sale of the Agency's generation assets and a portion of the Agency's transmission assets. Certain proposals received in connection with the 2016 and 2017 RFPs were pursued, but negotiations were ultimately discontinued. In 2019, the Agency issued an RFP involving only the sale of generation assets. Proposals were received in August 2019, and, on February 10, 2021, TMPA sold the GCSES to one of the proposers, GCERG. The sale was pursuant to an Asset Purchase Agreement with GCERG, dated February 10, 2021 (the "APA"). Pursuant to the APA (i) GCERG is obligated to remediate and close all CCR units within a period of 34 months pursuant to a work schedule included in the APA and, following such closure, to perform any required post-closure monitoring and care (ii) a \$28.546 million escrow fund has been established to fund in part GCERG's environmental remediation obligations (iii) a performance bond, in the amount of \$36.5 million has been provided by GCERG to TMPA, to secure GCERG's performance of its remediation obligations and (iv) a \$25 million pollution legal liability insurance policy has been provided by GCERG, naming TMPA and the Member Cities as additional insureds. Under the APA, TMPA is permitted to appoint an Environmental Designee. The Environmental Designee monitors the progress of GCERG's remediation activities, and is authorized, among other things, to direct the suspension of payments to GCERG from the escrow fund if GCERG falls behind schedule. Equal monthly disbursements from the escrow fund are to be made to the purchaser to fund the purchaser's environmental remediation obligations. Monthly disbursements are to be suspended if the remediation project falls behind the project schedule. If payments are suspended for 60 consecutive days, TMPA or the Member Cities may complete the project and receive reimbursement from the escrow fund.
- H. In 2016, TMPA applied to the Texas Commission on Environmental Quality ("TCEQ") for renewal of its federal operating permit under the Clean Air Act. On August 17, 2016, during

the public comment period, comments were jointly filed in the TCEQ by the Environmental Integrity Project and Sierra Club (the "Sierra Club and EIP Comments"). The Sierra Club and EIP Comments argued for more stringent opacity and particulate matter emission requirements in TMPA's draft permit, to be applied during planned maintenance, startup, and shutdown events.

The positions advanced by the EIP Comments were not unique to TMPA's permit renewal proceeding. The Sierra Club and Environmental Integrity Project have advanced similar arguments in proceedings involving other coal-fired electric generating units.

On June 6, 2019, the TMPA Board of Directors voted to retire Gibbons Creek. However, in September of 2019, TMPA began negotiations for the sale of GCSSES with GCERG. At that time, GCERG expressed interest in TMPA continuing to maintain the federal operating permit in effect. As a consequence of this effort, in July 2020, the TCEQ approved an Agreed Order renewing the Agency's operating permit.

On February 10, 2021, GCSSES was sold by TMPA to GCERG. As part of this transaction, the federal operating permit was transferred to GCERG on April 15, 2021 and subsequently voided. Under the APA, GCERG is obligated to decommission and demolish GCSSES. On August 23, 2021, TMPA submitted a letter to the TCEQ requesting that it revoke the Agreed Order. The TCEQ Staff acknowledged receipt of this letter on September 9, 2021, and indicated that the request was being processed by TCEQ Staff for submittal to the TCEQ at a regular meeting. The foregoing developments have rendered renewal of the federal operating permit moot, and it is not expected that the Sierra Club and EIP Comments will have a material impact on TMPA's financial position, results of operations, or cash flows.

- I. Effective September 1, 2016, TMPA and the Member Cities entered into a Joint Operating Agreement ("JOA"). In general, the purposes of the JOA include: (i) funding TMPA operations such as mine reclamation, transmission service, and plant decommissioning following expiration of the Power Sales Contract ("PSC") (ii) subject to certain exceptions, requiring Member City approval for the issuance of new debt, the execution of certain significant contracts, and the sale of property exceeding \$10 million in value (iii) specifying provisions for determining how costs of TMPA and proceeds from the sale of assets are to be allocated among the Member Cities (iv) providing for the establishment by TMPA of reserve funds for the decommissioning of the plant and the indemnification of TMPA Board Members and Member City officials, employees, contractors, and agents and (v) dividing the operations of TMPA into three business functions-mine, generation, and transmission-and requiring separate budgets and books for each business function.

The PSC provided that upon dissolution of TMPA, the assets of TMPA will automatically be transferred to the Member Cities, with each Member City receiving an undivided interest in the assets of TMPA in proportion to the amount paid by the Member City to TMPA. The JOA, for purposes of implementing the automatic transfer of assets upon dissolution of TMPA, requires TMPA to periodically make this calculation for each business unit, and sets out formulas for making these calculations. Under the JOA, these ownership calculations are relevant not only to the allocation of assets upon dissolution of TMPA, but also to the allocation of certain proceeds from the sale of assets, and in some cases, the allocation of TMPA costs.

If a majority of the Member Cities request it, TMPA is required by the JOA to transfer a divided interest in the transmission system to each Member City. Under this partition process, the objective is for each City to receive ownership of transmission facilities in the vicinity of the Member City, and in proportion to the Member City's ownership interest in the transmission business. Any such transfer of transmission assets must be in compliance with relevant bond covenants, including those requiring defeasance of all or a portion of transmission debt.

The JOA includes a reclamation plan for the mine, requires the development of a decommissioning plan, and sets out standards for environmental remediation. TMPA is required to comply with these plans and standards.

Under the JOA, in discharging its contractual obligations, including mine reclamation, decommissioning, transmission service, environmental remediation, indemnification, and other obligations, TMPA is rendering services to the Member Cities. The JOA obligates each Member City to pay the cost of these services, and to collect rates and charges for electric service sufficient to enable it to pay to TMPA all amounts due under the JOA for these services. A Member City's payment obligations under the JOA are payable exclusively from such electric utility revenues and constitute an operating expense of its electric system.

Unless terminated earlier through the mutual consent of all parties, the JOA remains in effect until the dissolution of TMPA.

Effective September 1, 2016, the JOA was amended ("Amendment No. 1"). The primary purposes of the amendment were to authorize the sale of Gibbons Creek and the sale of the Southern 345 kV Transmission System, as described in Note 7.G, and to authorize the issuance of refunding bonds in connection with such sales. Since the sale contemplated by Amendment No. 1 did not occur, Amendment No. 1, by its own terms, ceased to have any force or effect. Effective September 22, 2017, the JOA was amended a second time ("Amendment No. 2"). The purposes of Amendment No. 2 were to: continue TMPA's authority to issue Mine Reclamation Bonds as had been contemplated in Amendment No. 1; revise the dates on which the separate budgets of the JOA became effective; authorize the Agency to sell certain mining and transmission assets, provided the sales do not exceed in value certain financial thresholds, and provided the sales comply with bond covenants; and allow for an extension to the term of the PSC, applicable only to the Cities notifying TMPA of the extension, in order to complete a period of seasonal operation in 2018, or such other period of time as desired by the notifying Cities. Pursuant to the immediately foregoing provision, the cities of Bryan, Denton, and Garland extended the PSC from September 1, 2018, to September 30, 2018, in order to complete the period of 2018 seasonal operation. The PSC expired as to the City of Greenville on September 1, 2018 and expired as to the remaining Cities on September 30, 2018. Effective September 17, 2019, the JOA was amended a third time ("Amendment No. 3"). The purposes of Amendment No. 3 were to: clarify that all Board Members may vote on matters involving the decommissioning and/or sale of GCSES; delete a requirement that TMPA obtain Member City approval of certain budget increases attributable to mine reclamation bonding; and authorize the sale of mine tracts that are under mine bonding provided a lease, easement, or other property right is reserved that would enable TMPA to complete reclamation and obtain bond release. Effective June 28, 2021, the JOA was amended a fourth time ("Amendment No. 4"). Prior to Amendment No. 4, the JOA provided that a Member City exiting the Mine Business would remain responsible for its share of the costs of the Mine Business until all mining assets were sold. Amendment No. 4 extended the duration of this obligation until a time when all obligations are discharged with respect to the Agency's mine reclamation bonds and other financial commitments providing financial security in relation to the Agency's mine reclamation responsibilities. Amendment No. 4 also permits the sale of the Mine as a whole. Prior to the Amendment, no sale of an individual Mine tract could exceed \$250,000, and multiple sales in a Fiscal Year could not exceed \$500,000. Amendment No. 4 eliminates these caps.

- J. Gibbons Creek's operational status with ERCOT transitioned to: Seasonal Operations, effective September 26, 2017 (operated from May 21, 2018 through September 18, 2018); Reserve Shutdown, effective October 1, 2018; and Indefinite Mothball, effective June 1, 2019. On June 28, 2019, a notification to ERCOT was made to remove Gibbons Creek from the ERCOT system, effective October 23, 2019. The unit was actually removed from the ERCOT system on October 30, 2019. Due to the significant decline in the service utility of the generation assets, such assets were largely impaired as of September 30, 2017, with a final impairment on September 30, 2018. See Note 10 for discussion on related decommissioning liability.

- K. On July 15, 2021, the Board of Directors authorized the Gibbons Creek Lignite Mine to be sold to 3S Real Estate Investments, LLC ("3S"). On August 26, 2021, TMPA and 3S entered into a Farm and Ranch Contract to effect the sale. The sale is expected to close before the end of calendar year 2021. Approximately 11,000 acres will be sold. Following the closing, TMPA will continue to conduct mine reclamation activities pursuant to a reclamation easement that will remain in effect until all bonded areas are released from bond.

8. Environmental Regulation

General

Electric utilities, in general, 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.

TMPA sold the Gibbons Creek Steam Electric Station ("GCSES") on February 10, 2021, and the associated environmental permits and responsibility for environmental compliance have been transferred to the new owner. The new owner is actively decommissioning GCSES.

The environmental rules that used to apply in the past to GCSES are discussed below in light of the general and specific changes mentioned above.

Clean Power Plan ("CPP")

The intent of these rules is to regulate emissions of carbon dioxide ("CO₂") and their potential to affect climate change. On June 19, 2019, the U.S. Environmental Protection Agency ("EPA") issued the Affordable Clean Energy ("ACE") Rule, which replaced the Clean Power Plan issued in 2015. The ACE Rule, in turn, is now under reconsideration by the Biden Administration.

TMPA is not subject to this rule or its potential replacement because TMPA no longer owns GCSES.

Steam Electric Effluent Limitations Guidelines ("ELG")

The intent of this rule is to regulate the composition of wastewaters (liquid component) associated with "wet scrubbing" of flue gases while the CCR rule (discussed below) regulates the solid components (coal ash and gypsum).

EPA published the ELG rule on November 3, 2015. On September 13, 2017, EPA postponed the compliance dates for scrubber wastewater and bottom ash transport water from November 2018 to November 2020 pending reconsideration of the rule. The final rule was issued on August 31, 2020. The ELG Rule is now under reconsideration by the Biden Administration.

TMPA is not subject to this rule or its potential replacement because TMPA no longer owns GCSES.

Coal Combustion Residuals ("CCR")

This rule regulates the solid component associated with coal ash, as opposed to the ELG rule (discussed above) which regulates the liquid component.

On April 17, 2015, EPA published the CCR rule to regulate the combustion solids generated at coal-fired power plants, including the various types of coal ash and gypsum (a product from the wet scrubber). The rule went into effect on October 19, 2015, and TMPA performed work to comply with this rule, including installation and monitoring of additional groundwater wells, engineering analyses, and engineering certifications.

On December 16, 2016, the Water Infrastructure for the Nation ("WIIN") Act was signed into law authorizing state CCR programs and on April 6, 2017, the Texas legislature allocated funding to the Texas Commission on Environmental Quality ("TCEQ") for the development of a state CCR

Program. On November 1, 2019, TCEQ proposed rulemaking to create Chapter 352 of the Texas Administrative Code (TAC) Title 30 (Environmental Quality) to implement a new CCR management program for owners and operators of landfills and surface impoundments used to manage or dispose of CCR generated from the combustion of coal by electric utilities and independent power producers. EPA approved the Texas Coal Combustion Residuals permit program on June 28, 2021.

In the meantime, on July 29, 2020, EPA issued the final (federal) CCR rule entitled: Hazardous and Solid Waste Management System: Disposal of Coal Combustion Action: Residuals from Electric Utilities; A Holistic Approach to Closure Part A: Deadline to Initiate Closure.

TMPA is not subject to either the federal rule or the state rule because TMPA no longer owns GCSSES.

National Ambient Air Quality Standards ("NAAQS")

The primary intent of this rule is to regulate the concentration of ozone in the atmosphere. Ozone is formed through the interaction of nitrogen oxides (NO_x) and other compounds in the atmosphere under strong sunlight. It is therefore more prevalent in the summer season.

TMPA is not subject to this rule because TMPA no longer owns GCSSES.

Rules for the Regulation of Sulfur Dioxide ("SO₂") and Nitrogen Oxide ("NO_x") Emissions

SO₂ and NO_x emissions were identified in the 1960s as the main cause of acid rain and, over the years, a variety of rules have been introduced to regulate them.

On September 21, 2017, EPA issued a final Cross-State Air Pollution Rule ("CSAPR") that consists of a summer season (May through September) NO_x program for Texas which became effective in the summer season of 2017.

TMPA is not subject to this rule because TMPA no longer owns GCSSES.

Mercury Emissions

EPA issued new standards for the regulation of mercury emissions in February 2012 under the Mercury and Air Toxics Standards ("MATS") rule 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 15, 2016, to obtain sufficient time to adequately investigate and test mercury control technologies under different operating scenarios.

TMPA is not subject to this rule because TMPA no longer owns GCSSES.

Cooling Water Intakes

On August 15, 2014, EPA published a final rule on power plant cooling water intakes (known as the 316[b] Rule). This rule is being implemented by the state through the wastewater (Texas Pollutant Discharge Elimination System – "TPDES") permitting process.

TMPA is not subject to this rule because TMPA no longer owns GCSSES and the TPDES permit has been transferred to the new owner.

Other Environmental Matters

TMPA closed the Gibbons Creek Lignite Mine, which was the original source of fuel for the GCSES, in 1996 and has been pursuing reclamation of the mine site and release of mine reclamation obligations since that time. Field reclamation activities have essentially been completed and TMPA is in the process of filing applications for bond release with the Railroad Commission of Texas, the main regulatory authority.

TMPA originally had approximately 8,810 acres under mine reclamation bond. As of the end of September 2021, TMPA has obtained full bond release on approximately 7,860 acres (89%), has filed applications for final bond release on 540 acres (6%), and is preparing applications for another 350 acres (4%). In September 2021, the Texas Railroad Commission established TMPA's reclamation bond requirement at \$5.5 million.

TMPA will continue to aggressively pursue bond release. It is projected that by the end of fiscal year 2022, most of the area will have been released from all reclamation obligations. In the meantime, land maintenance and mandatory long-term monitoring programs will continue to meet all permitting and regulatory requirements.

9. Related Party Transactions

Through the take-or-pay amendment to the Power Sales Contract as described in Note 1, each of the Member Cities was obligated to take or pay for a specified percentage of electricity from TMPA's generating facility. The PSC expired as to the City of Greenville on September 1, 2018 and expired as to the remaining Cities on September 30, 2018. Effective September 1, 2016, TMPA and the Member Cities entered into a Joint Operating Agreement (see Note 7.I for further detail). For the years ended September 30, 2021 and 2020, 14% and 13% of total operating revenue, respectively, was attributable to the Member Cities.

The construction and maintenance of certain electric plant transmission assets are outsourced to the Cities of Garland and Denton. For the years ended September 30, 2021 and 2020, \$4,292,488 and \$11,639,908 of electric plant transmission assets and construction work in progress, respectively, were constructed by the City of Garland. For the years ended September 30, 2021 and 2020, \$345,583 and \$1,967,715 of accounts payable, respectively, was due to the City of Garland. For the years ended September 30, 2021 and 2020, \$109,227 and \$3,144,017 of electric plant transmission assets and construction work in progress, respectively, were constructed by the City of Denton. For the years ended September 30, 2021 and 2020, \$0 and \$96,020 of accounts payable, respectively, was due to the City of Denton. For the years ended September 30, 2021 and 2020, 79% and 80% of Transmission – Operation and Maintenance expense, respectively, was attributable to the City of Garland. The City of Denton does not incur Operation and Maintenance expenses on TMPA's behalf.

10. Decommissioning/Environmental Remediation Liability

GASB Statement No. 83 ("GASB 83"), Certain Asset Retirement Obligations, establishes uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs). An ARO is defined as a legally enforceable liability associated with the retirement of a tangible capital asset. An ARO is recognized when the liability is incurred, which is manifested by the occurrence of both an external obligating event and an internal obligating event.

On June 6, 2019, the Board of Directors approved the cessation of the production of power and energy from the Gibbons Creek Steam Electric Station ("GCSES"). On June 28, 2019, a notification to ERCOT was made to remove GCSES from the ERCOT system, effective October 23, 2019. The unit was actually removed from the ERCOT system on October 30, 2019. For FY 2019, these actions triggered the Agency to record a decommissioning/environmental remediation liability and related expenses of \$126,444,000 and a corresponding discounted receivable and related revenues of \$106,402,000 from the Member Cities, as they are obligated to pay all associated costs. For FY 2020, the abovementioned liability and receivable reduced to \$125,919,000 and \$99,376,000, respectively. On February 10, 2021, TMPA sold GCSES and all decommissioning/environmental remediation liability was transferred to the new owner. The net effect of the transaction (eliminating remaining decommissioning liability, member receivable, establishing an escrow on behalf of the buyer, etc.) resulted in TMPA recording a gain of \$18.3 million.

TEXAS MUNICIPAL POWER AGENCY

REQUIRED SUPPLEMENTARY INFORMATION

**Texas Municipal Power Agency
Supplementary Information
Postretirement Benefits Plan
September 30, 2021**

**Schedule of Changes in Net OPEB Liability and Related Ratios
Last 10 Fiscal Years**

	Measurement Year 2021	Measurement Year 2020	Measurement Year 2019	Measurement Year 2018
Total OPEB Liability				
Service Cost	\$ 1,431	\$ 2,738	\$ 2,492	\$ 2,527
Interest Cost	44,803	71,862	76,714	77,956
Changes of Benefit Terms	(157,996)	6,597	-	-
Difference Between Expected and Actual Experience of the Total OPEB Liability	-	(194,424)	-	(6,724)
Changes of Assumptions	41,060	111,600	32,760	(28,900)
Benefit Payments	(140,000)	(146,108)	(150,807)	(155,595)
Net Change in Total OPEB Liability	(210,702)	(147,735)	(38,841)	(110,736)
Total OPEB Liability (Beginning)	1,818,678	1,966,413	2,005,254	2,115,990
Total OPEB Liability (Ending)	<u>\$ 1,607,976</u>	<u>\$ 1,818,678</u>	<u>\$ 1,966,413</u>	<u>\$ 2,005,254</u>
Covered Payroll	\$ 122,354	\$ 118,331	\$ 414,530	\$ 400,899
Net OPEB Liability as a Percentage of Covered Payroll	1,314.20%	1,536.94%	474.37%	500.19%

Note to schedule: The information in this schedule has been determined as of the measurement date (May 31) of the Agency's total OPEB liability and is intended to show information for 10 years. However, until a full 10-year trend is compiled in accordance with the provisions of GASB 75, only periods for which such information is available are presented.

TEXAS MUNICIPAL POWER AGENCY

SUPPLEMENTAL SCHEDULE

Texas Municipal Power Agency
Combining Statement of Revenues, Expenses and Changes in Net Position
September 30, 2021

	Generation	Transmission	Mine	Combined
Operating Revenues				
Power Sales	\$ 2,801	\$ -	\$ 2,748	\$ 5,549
Transmission Revenues	-	34,428	-	34,428
Other Operating Revenues	42	-	43	85
Total operating revenues	<u>2,843</u>	<u>34,428</u>	<u>2,791</u>	<u>40,062</u>
Operating Expenses				
Power Production - Operation and Maintenance	1,472	-	930	2,402
Transmission - Operation and Maintenance	-	4,196	-	4,196
Administrative and General	450	1,347	595	2,392
Depreciation Expense	-	8,089	-	8,089
Total Operating Expenses	<u>1,922</u>	<u>13,632</u>	<u>1,525</u>	<u>17,079</u>
Income from Operations	<u>921</u>	<u>20,796</u>	<u>1,266</u>	<u>22,983</u>
Other Income				
Investment Revenue	3	15	3	21
Contributed Capital	-	103	-	103
Miscellaneous Other Income (Expense)	4	(2,213)	118	(2,091)
Total Other Income (Expense)	<u>7</u>	<u>(2,095)</u>	<u>121</u>	<u>(1,967)</u>
Interest Charges				
Interest Expense on Debt	-	8,844	-	8,844
Bond Issuance Cost	-	438	-	438
Amortization of Debt Premium and Deferred	-	-	-	-
Gain on Refunding of Debt	-	777	-	777
Total Interest and Finance Charges	<u>-</u>	<u>10,059</u>	<u>-</u>	<u>10,059</u>
Impact of Regulatory Assets in Change in Net Position	<u>(91)</u>	<u>-</u>	<u>(1,553)</u>	<u>(1,644)</u>
Net Revenues (Expenses) Before Refunds	<u>837</u>	<u>8,642</u>	<u>(166)</u>	<u>9,313</u>
Refunds to Member Cities	<u>(9,579)</u>	<u>(13,233)</u>	<u>-</u>	<u>(22,812)</u>
Change in Net Position (Deficit) before Gain on Sale of Plant	<u>(8,742)</u>	<u>(4,591)</u>	<u>(166)</u>	<u>(13,499)</u>
Gain on Sale of Plant	<u>18,304</u>	<u>-</u>	<u>-</u>	<u>18,304</u>
Change in Net Position (Deficit)	<u>\$ 9,562</u>	<u>\$ (4,591)</u>	<u>\$ (166)</u>	<u>\$ 4,805</u>

December 9, 2021

AGENDA ITEM NO. 4

SUBJECT: Receive report on the City of Garland transmission expense billing audit.

DISCUSSION: Annually, Finance Staff audits the expenses billed to TMPA by the City of Garland under the Transmission Operator Agreement. The purpose of this item is to report the results of the audit for FY21.

BACKUP

MATERIAL: Memo –Garland transmission agreement compliance audit.

ACTION

REQUESTED: None. This item is provided for the Committee's information.

Lyndi Birkhead
12/1/21

Audit Report

Texas Municipal Power Agency



TO: Audit and Budget Committee
Bob Kahn, General Manager

DATE: August 31, 2021

FROM: Lyndi Birkhead, Director of Finance & Support Services

Lyndi Birkhead

SUBJECT: Garland Transmission Agreement Compliance Audit

Section 7.0, Audits, of the Transmission Operator, Maintenance, and Construction Services Agreement between Texas Municipal Power Agency (TMPA) and the City of Garland, Texas (Garland) states that TMPA may conduct operating and financial audits.

TMPA conducted an audit for fiscal year 2021 and below details the audit procedures performed and the results.

Audit Procedures Performed

To audit compliance with the agreement for both Operating Costs (O&M) and Capital Expenditures, the TMPA Finance Department verified the following:

- Policy is adequate and followed
- Accuracy of costs invoiced to TMPA
- Expenses are properly approved and authorized
- Expenses are properly documented and supported (i.e. invoices, timesheets, etc.)
- Amounts reimbursed are within policy guidelines including evidence that bid procedures are followed
- Reimbursements are coded to proper expense categories (FERC, Project, etc.)

Results

No significant errors were found and controls appear strong. Audit testing found the supporting documents to be accurate and that Garland was compliant with the TMPA and Garland Agreement.

It is suggested that an annual audit continue to be performed to verify that controls remain strong and that compliance with the Agreement is maintained.

The Finance Department would like to express appreciation for the cooperation and coordination by the GP&L team throughout the audit.

cc: Darrell Cline, GP&L Director Electric Finance & Accounting
Laurie Armstrong, GP&L Electric Accounting Supervisor

December 9, 2021

AGENDA ITEM NO. 5

SUBJECT: Consider approval of the external auditors for the audit relating to the 2022 Fiscal Year.

DISCUSSION: The Agency has completed two years of a five-year agreement with BKD, LLP, for external audit services. The five-year term is subject to satisfactory annual performance reviews by the Committee. This is the second five-year agreement the Agency has entered into with BKD, LLP.

The purpose of this agenda item is to determine whether the Committee is satisfied with the firm's performance and approves them for another year's service.

Staff recommends approval.

BACKUP

MATERIAL: None.

ACTION

REQUESTED: Approve the retention of BKD, LLP, for the fiscal year 2022 audit work.

Lyndi Birkhead
12/1/21

December 9, 2021

AGENDA ITEM NO. 6

SUBJECT: Receive update on the Annual Audit Plan.

DISCUSSION: Receiving an update on the annual audit plan remains a standing agenda item on the Committee's meeting schedule. The table below identifies the recurring activities commissioned by the Committee.

Recurring Project	Requirement/Requestor	Reporting Assignment
TMPA financial statement audit	Bond covenants	External auditors
Pension plan audit	Legal requirement	External auditors
Deferred asset annual review	ABC	External auditors/Finance
Investment policy compliance	Legal requirement	External auditors
Transmission billing audit	TMPA senior staff	Finance

Staff recommends that we continue with the current audit plan.

BACKUP

MATERIAL: None.

ACTION

REQUESTED: Approval to continue with the current audit plan for FY22

Lyndi Birkhead
12/1/21

December 9, 2021

AGENDA ITEM NO. 7

SUBJECT: Receive Annual Ethics Program update.

DISCUSSION: In July 2012, the Ethics Program established the following:

- A hotline reporting system
- An Ethics Officer position
- An Ethics Committee and charter
- Policies updates (Code of Conduct, GM 1400, GM 1500, and HR 2400)
- Bi-annual ethics training
- Annual conflict of interest (COI) questionnaire

Lyndi Birkhead remains the Agency's Ethics Officer. The Ethics Committee consists of Lyndi Birkhead and Jan Horbaczewski.

For FY21, there were zero cases reported through the Ethics Hotline. There are currently no open cases or concerns.

For the FY21 COI questionnaire, all responses were reviewed by the Ethics Committee and reported to the General Manager. No significant conflicts were identified.

The Ethics Committee has reviewed the current Ethics Committee charter and related policies, and there are no substantive updates needing the Committee's attention at this time.

BACKUP

MATERIAL: None.

ACTION

REQUESTED: This item is presented for the Committee's information.

Lyndi Birkhead
12/1/21

December 9, 2021

AGENDA ITEM NO. 8

SUBJECT: Cash Funding of the Mine Bonding Requirements.

DISCUSSION: The Agency currently satisfies the Railroad Commission's (RCT) mine bonding requirements with letters of credit (LOCs) provided by Wells Fargo. The Agency will continue with this structure for the upcoming renewal (June 2022-June 2023), during which time the bonding requirement will be \$5.5M.

TMPA staff recently had a conference call with RCT staff regarding the option to cash fund beginning with the period June 2023-June 2024. The Agency could deposit the bonding requirement directly with the RCT, i.e., Texas Comptroller of Public Accounts. The bonding requirement would continue to be evaluated each year for reductions – funds released back to TMPA annually if applicable/approved by the RCT.

TMPA is currently estimating future bonding requirements as follows:

June 2023-June 2024	\$1.4M
June 2024-June 2025	\$1.0M
Until acid seeps released	\$1.0M

Below is a breakdown of the estimated costs that would be incurred annually as part of the LOC renewal process for a \$1.4M bonding requirement:

LOC Fees (estimate for \$1.4M requirement)	\$15,400
TMPA Legal	30,320
Fitch Rating	20,000
Wells Fargo Legal	17,500
AG Filing Fees	9,910
Wells Fargo Admin Fees	7,050
TOTAL	\$100,180

If cash funding is utilized, all of the line items above would reduce to zero with the exception of TMPA legal which would be estimated at \$1,500.

It is the recommendation of TMPA staff to utilize cash funding of the mine bonding requirements beginning with the period June 2023-June 2024. This is estimated to require a \$1.4M cash deposit to the RCT in early 2023. TMPA would include this amount in the FY23 Mine budget. This one budget line item would be collected in one-time invoices to the Member Cities just prior to the date the RCT requires the deposit to be made (estimated as early 2023). The \$1.4M collected from the Cities would be returned to them as annual reductions to bonding requirements are approved by the RCT.

This cash bonding proposal was presented to the Financial Working Group in November and was unanimously recommended by the Group.

BACKUP

MATERIAL: None.

Competitive – Confidential Information

ACTION

REQUESTED: Recommend to the Board the cash funding of the mine bonding requirements beginning period June 2023-June 2024 as discussed above.

Lyndi Birkhead
12/1/21

December 9, 2021

AGENDA ITEM NO. 9

SUBJECT: Discuss future meeting dates and topics.

DISCUSSION: The primary purpose of the next Audit and Budget Committee meeting is to review the FY23 budget before it is submitted for Board approval. The FY23 budget process will be discussed at the February Board meeting. An Audit and Budget Committee meeting will be scheduled once the process is defined.

BACKUP

MATERIAL: None.

ACTION

REQUESTED: None.

Lyndi Birkhead
12/1/21