FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SAM RAYBURN MUNICIPAL POWER AGENCY

For the Years Ended
September 30, 2016 and 2015

AXLEY & RODE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sam Rayburn Municipal Power Agency

We have audited the accompanying financial statements of each major proprietary fund of Sam Rayburn Municipal Power Agency (the "Agency") which comprise the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the fiscal years then ended and the related notes to the financial statements.

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 opinions 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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 Agency'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 Agency'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Sam Rayburn Municipal Power Agency as of September 30, 2016 and 2015, and the changes in its net 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

Generally accepted accounting principles in the United States of America require the Management's Discussion and Analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary information in the accompanying Schedules of Debt Service Coverage is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
March 13, 2017

Financial Statements Overview

This discussion and analysis of Sam Rayburn Municipal Power Agency's (the Agency) financial performance provides an overview of the Agency's activities for the fiscal years ended September 30, 2016 and 2015. The information presented should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

The Agency follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The basic financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Agency's basic financial statements include the statements of net position for each major fund and the related statements of revenues, expenses and changes in net position, the statements of cash flows, and notes to the financial statements.

The Statements of Net Position provide information about the nature and amount of assets and obligations (liabilities) of the Agency as of the end of each year being reported. The Statements of Revenues, Expenses, and Changes in Net Position report revenues and expenses for each year being reported. The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing activities, and investing activities.

Financial Highlights

As further explained in footnote 7 to the financial statements, the Agency entered into a series of power purchase and sale agreements referred to as the Cambridge Project in fiscal year 2012. The operations of this project are reported in a separate proprietary fund that is separately disclosed in the financial statements. The operations of the Cambridge Project are included in the condensed financial statements presented in this discussion and analysis.

Comparison of 2016 to 2015

The following table summarizes the net position of the Agency as of September 30:

Condensed Statements of Net Position

	2016	2015	DOLLAR CHANGE	PERCENTAGE CHANGE
Capital assets, net	$ 11 627 760	$ 10 843 376	$ 784 384	7.2%
Current assets	46 378 636	57 202 191	(10 823 555)	(18.9)%
Other noncurrent assets	46 571 623	50 561 181	(3 989 558)	(7.9)%
TOTAL ASSETS	104 578 019	118 606 748	(14 028 729)	(11.8)%
Deferred outflows	47 691 997	47 464 669	227 328	0.5%
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 152 270 016	$ 166 071 417	$ (13 801 401)	(8.3)%
Current liabilities	$ 31 795 780	$ 45 094 964	$ (13 299 184)	(29.5)%
Long-term liabilities	67 505 000	79 070 000	(11 565 000)	(14.6)%
TOTAL LIABILITIES	99 300 780	124 164 964	(24 864 184)	(20.0)%
Deferred inflows	5 458 109	7 471 013	(2 012 904)	(26.9)%
TOTAL LIABILITIES AND DEFERRED INFLOWS	104 758 889	131 635 977	(26 877 088)	(20.4)%
Net Position:				
Invested in capital assets, net of related debt	(12 295 792)	(23 729 816)	11 434 024	48.2%
Restricted	29 776 740	31 373 999	(1 597 259)	(5.1)%
Unrestricted	30 030 179	26 791 257	3 238 922	12.1%
TOTAL NET POSITION	47 511 127	34 435 440	13 075 687	38.0%
TOTAL LIABILITIES AND NET POSITION	$ 152 270 016	$ 166 071 417	$ (13 801 401)	(8.3)%

Condensed statement of net position highlights are as follows:

- The assets of the Agency exceeded its liabilities at the close of 2016 by approximately $47.5 million as compared to $34.4 million at the end of 2015. This was the result of a combined net change in position of approximately $13.1 million of which the Cambridge Project contributed approximately $3.8 million.

- Current assets decreased by approximately $10.8 million from 2015 to 2016. Current assets include cash and cash equivalents, prepaid expenses, power sales receivables, and marketable securities. The Cambridge Project had a combined decrease in cash, receivables, and marketable securities of approximately $11.3 million, which was the primary reason for the decrease.

- Other noncurrent assets decreased by approximately $4 million from 2015 to 2016. This was due to several factors: 1) amortization of the Requirements Power Supply Agreement of approximating $2.6 million and 2) decrease in restricted cash of approximately $1.4 million. Other noncurrent assets primarily include restricted cash and cash equivalents being used for operating, maintenance, working capital, debt, and construction needs of the Agency. Additionally, other noncurrent assets include the Requirements Power Supply Agreement.

- Capital assets, net increased by approximately $784 thousand during 2016 due primarily to ongoing capital improvement projects.

- Deferred outflows increased by approximately $227 thousand from 2015 to 2016. Deferred outflows includes deferred charges and the cost of debt issued in excess of debt refunded, net of related amortization. The increase was the net of $2.3 million in additions over amortization.

- Current liabilities decreased by approximately $13.3 million from 2015 to 2016, which was due to a combination of factors: 1) decrease in accounts payable of approximately $1.6 million, 2) increase of $555 thousand in current bonds payable, 3) decrease of $275 thousand in accrued interest on bonds and 4) decrease in amount due to members of approximately $12 million. Current liabilities include payables for purchased power, other vendor payables, accrued interest payable, and short-term bonds payable.

- Long-term liabilities decreased by approximately $11.6 million from 2015 to 2016, which was due entirely to debt payments made during the year. Long-term liabilities represent bonds issued by the Agency.

- Deferred inflows decreased by approximately $2.0 million from 2015 to 2016, which was due entirely to amortization on the $15.0 million bond premium incurred as result of the 2012 refunding. Deferred inflows represent the premium on bonds issued by the Agency, net of related amortization.

Comparison of 2015 to 2014

The following table summarizes the net position of the Agency as of September 30:

Condensed Statements of Net Position

	2015	2014	DOLLAR CHANGE	PERCENTAGE CHANGE
Capital assets, net	$ 10 843 376	$ 11 776 671	$ (933 295)	(7.9)%
Current assets	57 202 191	47 461 041	9 741 150	20.5%
Other noncurrent assets	50 561 181	50 556 912	4 269	0.1%
TOTAL ASSETS	118 606 748	109 794 624	8 812 124	8.0%
Deferred outflows	47 464 669	47 009 048	455 621	1.0%
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 166 071 417	$ 156 803 672	$ 9 267 745	5.9%
Current liabilities	$ 45 094 964	$ 35 260 657	$ 9 834 307	27.9%
Long-term liabilities	79 070 000	90 080 000	(11 010 000)	(12.2)%
TOTAL LIABILITIES	124 164 964	125 340 657	(1 175 693)	(0.9)%
Deferred inflows	7 471 013	9 736 721	(2 265 708)	(23.3)%
TOTAL LIABILITIES AND DEFERRED INFLOWS	131 635 977	135 077 378	(3 441 401)	(2.6)%
Net Position:				
Invested in capital assets, net of related debt	(23 729 816)	(32 912 258)	9 182 442	(27.9)%
Restricted	31 373 999	28 910 484	2 463 515	8.5%
Unrestricted	26 791 257	25 728 068	1 063 189	4.1%
TOTAL NET POSITION	34 435 440	21 726 294	12 709 146	58.5%
TOTAL LIABILITIES AND NET POSITION	$ 166 071 417	$ 156 803 672	$ 9 267 745	5.9%

Condensed statement of net position highlights are as follows:

- The assets of the Agency exceeded its liabilities at the close of 2015 by approximately $34 million as compared to $22 million at the end of 2014. This was the result of a combined net change in position of approximately $12.7 million of which the Cambridge Project contributed approximately $5.0 million.

- Current assets increased by approximately $9.7 million from 2014 to 2015. Current assets include cash and cash equivalents, prepaid expenses, and power sales receivables. The Cambridge Project had an increase in cash and receivables of approximately $11.0 million and this was the primary reason for the increase.

- Other noncurrent assets increased by approximately $4 thousand from 2014 to 2015. This was due to several factors: 1) amortization of the Requirements Power Supply Agreement of approximating $2.6 million and 2) increase in restricted cash of approximately $2.6 million. Other noncurrent assets primarily include restricted cash and cash equivalents being used for operating, maintenance, working capital, debt, and construction needs of the Agency. Additionally, other noncurrent assets include the Requirements Power Supply Agreement.

- Capital assets, net decreased by approximately $933 thousand during 2015 due primarily to depreciation.

- Deferred outflows increased by approximately $456 thousand from 2014 to 2015. Deferred outflows includes deferred charges and the cost of debt issued in excess of debt refunded, net of related amortization. The increase was the net of $3.1 million in additions over amortization.

- Current liabilities increased by approximately $9.8 million from 2014 to 2015, which was due to a combination of factors: 1) decrease in accounts payable of approximately $2.5 million, 2) increase of $1.0 million in current bonds payable, 3) decrease of $250 thousand in accrued interest on bonds and 4) increase in amount due to members of approximately $11.3 million. Current liabilities include payables for purchased power, other vendor payables, accrued interest payable, and short-term bonds payable.

- Long-term liabilities decreased by approximately $11.0 million from 2014 to 2015 and this was due entirely to debt payments made during the year. Long-term liabilities represent the bonds issued by the Agency.

- Deferred inflows decreased by approximately $2.3 million from 2014 to 2015 and this was due entirely to amortization on the $15.0 million bond premium incurred as result of the 2012 refunding. Deferred inflows represent the premium on bonds issued by the Agency, net of related amortization.

The following table summarizes the changes in net position of the Agency for the years ended September 30, 2016 and 2015:

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2016	2015	DOLLAR CHANGE	PERCENTAGE CHANGE
Operating revenues, power sales	$ 242 151 384	$ 257 547 825	$ (15 396 441)	(6.0)%
Other nonoperating revenues	235 001	53 853	181 148	336.4%
TOTAL REVENUES	242 386 385	257 601 678	(15 215 293)	(5.9)%
Operating expenses	213 723 344	213 464 050	259 294	0.1%
Other nonoperating expenses	15 587 354	31 428 482	(15 841 128)	(50.4)%
TOTAL EXPENSES	229 310 698	244 892 532	(15 581 834)	(6.4)%
CHANGE IN NET POSITION	13 075 687	12 709 146	366 541	2.9%
Beginning net position	34 435 440	21 726 294	12 709 146	58.5%
ENDING NET POSITION	$ 47 511 127	$ 34 435 440	$ 13 075 687	38.0%

Condensed statements of revenues, expenses, and changes in net position highlights are as follows:

- Operating revenues decreased by $15.4 million from 2015 to 2016 primarily as a result of a $13.4 million decrease in power sales from the Cambridge Project. The RPSA funds power sales decreased by $2.0 million. Accordingly, the operating expense increase of approximately $259 thousand from 2015 to 2016 resulted primarily from the decrease in purchased power costs of $876 thousand and the increase in outside services of $1.0 million.

- Other nonoperating revenues increased due to the Agency holding additional types of investments, resulting in additional interest and investment income.

- Other nonoperating expenses decreased $15.8 million, primarily as a result of a decrease in refunds paid to member cities of approximately $14.8 million.

The following table summarizes the changes in net position of the Agency for the years ended September 30, 2015 and 2014:

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2015	2014	DOLLAR CHANGE	PERCENTAGE CHANGE
Operating revenues, power sales	$ 257 547 825	$ 284 302 794	$ (26 754 969)	(9.4)%
Other nonoperating revenues	53 853	34 949	18 904	54.1%
TOTAL REVENUES	257 601 678	284 337 743	(26 736 065)	(9.4)%
Operating expenses	213 464 050	257 128 528	(43 664 478)	(17.0)%
Other nonoperating expenses	31 428 482	14 984 803	16 443 679	109.7%
TOTAL EXPENSES	244 892 532	272 113 331	(27 220 799)	(10.0)%
CHANGE IN NET POSITION	12 709 146	12 224 412	484 734	4.0%
Beginning net position	21 726 294	9 501 882	12 224 412	128.7%
ENDING NET POSITION	$ 34 435 440	$ 21 726 294	$ 12 709 146	58.5%

Condensed statements of revenues, expenses, and changes in net position highlights are as follows:

- Operating revenues decreased by $26.8 million from 2014 to 2015 primarily as a result of a $25.5 million decrease in power sales from the Cambridge Project. The RPSA funds power sales decreased by $1.25 million. Accordingly, the operating expense decrease of approximately $43.6 million from 2014 to 2015 resulted primarily from the decrease in purchased power costs of $42.9 million.

- Other nonoperating revenues increased due to the increased cash balances, resulting in additional interest income.

- Other nonoperating expenses increased $16.4 million, primarily as a result of an increase in refunds paid to member cities of approximately $17.9 million.

Capital Asset and Debt Administration

As of September 30, 2016, the Agency had net capital assets of approximately $11.6 million, which consisted primarily of hydro-electric plant, substations, and lines. Refer to Note 2 for detail of activity.

As of September 30, 2016, the Agency had total debt outstanding of approximately $79 million. Refer to Note 5 for detail of activity.

Requests for Information

This financial report is provided as an overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the office of the Executive Director, Sam Rayburn Municipal Power Agency, 1517 Trinity Street, Liberty, Texas 77575.

FINANCIAL STATEMENTS

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF NET POSITION
September 30, 2016

	RPSA FUND 2016	CAMBRIDGE FUND 2016	TOTAL 2016
Noncurrent Assets:			
Requirements power supply agreement, net - Value of contract with Entergy	$ 12 912 560	$ -	$ 12 912 560
Capital Assets:			
Electric plant	21 956 269	-	21 956 269
Substations and lines	21 318 057	-	21 318 057
Furniture and fixtures	2 195	-	2 195
Less accumulated depreciation	(31 648 761)	-	(31 648 761)
TOTAL CAPITAL ASSETS, NET	11 627 760	-	11 627 760
Restricted Assets:			
Cash and cash equivalents	33 522 037	-	33 522 037
Cash and cash equivalents - Reserved	-	137 026	137 026
TOTAL RESTRICTED ASSETS	33 522 037	137 026	33 659 063
TOTAL NONCURRENT ASSETS	58 062 357	137 026	58 199 383
Current Unrestricted Assets:			
Cash and cash equivalents	697 225	3 417 012	4 114 237
Cash and cash equivalents - Reserved	-	6 795 750	6 795 750
Marketable securities, at fair value	-	12 780 602	12 780 602
Accounts receivable	4 144 124	17 780 931	21 925 055
Due from Vinton Public Power Authority	-	539 976	539 976
Due from other fund	193 454	-	193 454
Prepaid expenses	29 562	-	29 562
TOTAL CURRENT UNRESTRICTED ASSETS	5 064 365	41 314 271	46 378 636
TOTAL ASSETS	63 126 722	41 451 297	104 578 019
Deferred Outflows:			
Cost of debt issued in excess of debt refunded	35 392 720	-	35 392 720
Costs to be recovered from future revenues	7 088 706	5 210 571	12 299 277
TOTAL DEFERRED OUTFLOWS	42 481 426	5 210 571	47 691 997
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 105 608 148	$ 46 661 868	$ 152 270 016
Liabilities:			
Long-term debt, net of current portion	$ 67 505 000	$ -	$ 67 505 000
Current Liabilities:			
Accounts payable from unrestricted assets	456 088	15 698 915	16 155 003
Due to other fund	-	193 454	193 454
Due to Members	-	-	-
Current Liabilities from Restricted Assets:			
Accounts payable	1 768 542	-	1 768 542
Accrued interest payable	1 976 755	-	1 976 755
Due to Vinton Public Power Authority	-	137 026	137 026
Current portion of long-term debt	11 565 000	-	11 565 000
TOTAL CURRENT LIABILITIES FROM RESTRICTED ASSETS	15 310 297	137 026	15 447 323
TOTAL CURRENT LIABILITIES	15 766 385	16 029 395	31 795 780
Deferred Inflows:			
Bond premium	5 458 109	-	5 458 109
TOTAL CURRENT LIABILITIES AND DEFERRED INFLOWS	21 224 494	16 029 395	37 253 889
Net Position:			
Invested in capital assets and deferred outflows net of related debt and deferred inflows	(17 506 363)	5 210 571	(12 295 792)
Restricted assets net of related liabilities	29 776 740	-	29 776 740
Unrestricted assets net of related liabilities	4 608 277	25 421 902	30 030 179
TOTAL NET POSITION	16 878 654	30 632 473	47 511 127
TOTAL LIABILITIES AND NET POSITION	$ 105 608 148	$ 46 661 868	$ 152 270 016

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

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF NET POSITION
September 30, 2015

	RPSA FUND 2015	CAMBRIDGE FUND 2015	TOTAL 2015
Noncurrent Assets:			
Requirements power supply agreement, net - Value of contract with Entergy	$ 15 513 152	$ -	$ 15 513 152
Capital Assets:			
Electric plant	21 956 269	-	21 956 269
Substations and lines	19 306 788	-	19 306 788
Furniture and fixtures	2 195	-	2 195
Less accumulated depreciation	(30 421 876)	-	(30 421 876)
TOTAL CAPITAL ASSETS, NET	10 843 376	-	10 843 376
Restricted Assets:			
Cash and cash equivalents	34 911 872	-	34 911 872
Cash and cash equivalents - Reserved	-	136 157	136 157
TOTAL RESTRICTED ASSETS	34 911 872	136 157	35 048 029
TOTAL NONCURRENT ASSETS	61 268 400	136 157	61 404 557
Current Unrestricted Assets:			
Cash and cash equivalents	696 082	27 025 812	27 721 894
Cash and cash equivalents - Reserved	-	5 436 600	5 436 600
Marketable securities, at fair value	-	-	-
Accounts receivable	3 847 127	20 138 417	23 985 544
Due from Vinton Public Power Authority	-	-	-
Due from other fund	33 466	-	33 466
Prepaid expenses	24 687	-	24 687
TOTAL CURRENT UNRESTRICTED ASSETS	4 601 362	52 600 829	57 202 191
TOTAL ASSETS	65 869 762	52 736 986	118 606 748
Deferred Outflows:			
Cost of debt issued in excess of debt refunded	36 561 646	-	36 561 646
Costs to be recovered from future revenues	6 465 997	4 437 026	10 903 023
TOTAL DEFERRED OUTFLOWS	43 027 643	4 437 026	47 464 669
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 108 897 405	$ 57 174 012	$ 166 071 417
Liabilities:			
Long-term debt, net of current portion	$ 79 070 000	$ -	$ 79 070 000
Current Liabilities:			
Accounts payable from unrestricted assets	248 581	18 128 887	18 377 468
Due to other fund	-	33 466	33 466
Due to Members	-	12 000 000	12 000 000
Current Liabilities from Restricted Assets:			
Accounts payable	1 285 873	-	1 285 873
Accrued interest payable	2 252 000	-	2 252 000
Due to Vinton Public Power Authority	-	136 157	136 157
Current portion of long-term debt	11 010 000	-	11 010 000
TOTAL CURRENT LIABILITIES FROM RESTRICTED ASSETS	14 547 873	136 157	14 684 030
TOTAL CURRENT LIABILITIES	14 796 454	30 298 510	45 094 964
Deferred Inflows:			
Bond premium	7 471 013	-	7 471 013
TOTAL CURRENT LIABILITIES AND DEFERRED INFLOWS	22 267 467	30 298 510	52 565 977
Net Position:			
Invested in capital assets and deferred outflows net of related debt and deferred inflows	(28 166 842)	4 437 026	(23 729 816)
Restricted assets net of related liabilities	31 373 999	-	31 373 999
Unrestricted assets net of related liabilities	4 352 781	22 438 476	26 791 257
TOTAL NET POSITION	7 559 938	26 875 502	34 435 440
TOTAL LIABILITIES AND NET POSITION	$ 108 897 405	$ 57 174 012	$ 166 071 417

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

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended September 30, 2016

	RPSA FUND 2016	CAMBRIDGE FUND 2016	TOTAL 2016
Operating revenues	$ 33 684 094	$ 208 467 290	$ 242 151 384
Operating Expenses:			
Purchased power	13 230 797	188 462 773	201 693 570
Operations and maintenance	1 512 854	-	1 512 854
General and administrative	259 307	200	259 507
Outside services	303 368	6 126 568	6 429 936
Depreciation and amortization	3 827 477	-	3 827 477
TOTAL OPERATING EXPENSES	19 133 803	194 589 541	213 723 344
OPERATING INCOME	14 550 291	13 877 749	28 428 040
Nonoperating Revenues (Expenses):			
Interest and investment income	130 543	104 458	235 001
Interest expense	(3 953 508)	-	(3 953 508)
Amortization of bond premium	2 012 904	-	2 012 904
Refunds and distributions to Members	(4 120 442)	(7 500 000)	(11 620 442)
Amortization of the cost of debt issued in excess of debt refunded	(1 168 926)	-	(1 168 926)
Costs to be recovered from future revenues	(857 382)	-	(857 382)
TOTAL NONOPERATING REVENUES (EXPENSES)	(7 956 811)	(7 395 542)	(15 352 353)
TRANSFERS	2 725 236	(2 725 236)	-
CHANGE IN NET POSITION	9 318 716	3 756 971	13 075 687
Total net position, beginning of year	7 559 938	26 875 502	34 435 440
TOTAL NET POSITION, END OF YEAR	$ 16 878 654	$ 30 632 473	$ 47 511 127

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

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended September 30, 2015

	RPSA FUND 2015	CAMBRIDGE FUND 2015	TOTAL 2015
Operating revenues	$ 35 707 626	$ 221 840 199	$ 257 547 825
Operating Expenses:			
Purchased power	15 082 536	187 486 628	202 569 164
Operations and maintenance	1 328 699	-	1 328 699
General and administrative	376 878	-	376 878
Outside services	58 871	5 330 061	5 388 932
Depreciation and amortization	3 800 377	-	3 800 377
TOTAL OPERATING EXPENSES	20 647 361	192 816 689	213 464 050
OPERATING INCOME	15 060 265	29 023 510	44 083 775
Nonoperating Revenues (Expenses):			
Interest and investment income	53 853	-	53 853
Interest expense	(4 504 000)	-	(4 504 000)
Amortization of bond premium	2 265 708	-	2 265 708
Refunds and distributions to Members	(2 414 664)	(24 000 000)	(26 414 664)
Amortization of the cost of debt issued in excess of debt refunded	(1 991 941)	-	(1 991 941)
Costs to be recovered from future revenues	(783 585)	-	(783 585)
TOTAL NONOPERATING REVENUES (EXPENSES)	(7 374 629)	(24 000 000)	(31 374 629)
TRANSFERS	-	-	-
CHANGE IN NET POSITION	7 685 636	5 023 510	12 709 146
Total net position, beginning of year	(125 698)	21 851 992	21 726 294
TOTAL NET POSITION, END OF YEAR	$ 7 559 938	$ 26 875 502	$ 34 435 440

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

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS
For the Year Ended September 30, 2016

	RPSA FUND 2016	CAMBRIDGE FUND 2016	TOTAL 2016
Cash Flows from Operating Activities:			
Received from Members and participants	$ 33 387 097	$ 210 284 800	$ 243 671 897
Payments to employees	(242 970)	-	(242 970)
Payments to suppliers	(14 572 701)	(197 018 644)	(211 591 345)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18 571 426	13 266 156	31 837 582
Cash Flows from Noncapital Financing Activities:			
Increase (decrease) in due to other fund	(159 988)	159 988	-
Operating transfers in (out)	2 725 236	(2 725 236)	-
Refunds and distributions to Members	(4 120 442)	(19 500 000)	(23 620 442)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(1 555 194)	(22 065 248)	(23 620 442)
Cash Flows from Capital and Related Financing Activities:			
Principal paid on bonds	(11 010 000)	-	(11 010 000)
Payment of interest	(4 228 753)	-	(4 228 753)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(15 238 753)	-	(15 238 753)
Cash Flows from Investing Activities:			
Purchases of substations and lines	(2 011 269)	-	(2 011 269)
Net proceeds (purchases) from marketable securities transactions	-	(12 772 724)	(12 772 724)
Payment for charges deferred to be recovered	(1 285 445)	(773 545)	(2 058 990)
Interest received	130 543	96 580	227 123
NET CASH USED BY INVESTING ACTIVITIES	(3 166 171)	(13 449 689)	(16 615 860)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1 388 692)	(22 248 781)	(23 637 473)
Cash and cash equivalents at beginning of year	35 607 954	32 598 569	68 206 523
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 34 219 262	$ 10 349 788	$ 44 569 050
Cash Components:			
Cash and cash equivalents	$ 697 225	$ 10 212 762	$ 10 909 987
Restricted cash and cash equivalents	33 522 037	137 026	33 659 063
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 34 219 262	$ 10 349 788	$ 44 569 050
Cash Flows from Operating Activities:			
Operating income	$ 14 550 291	$ 13 877 749	$ 28 428 040
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	3 827 477	-	3 827 477
Changes in Assets and Liabilities:			
Accounts receivable	(296 997)	1 817 510	1 520 513
Prepaid expenses - Unrestricted assets	(4 875)	-	(4 875)
Accounts payable - Restricted assets	482 669	869	483 538
Accounts payable - Unrestricted assets	12 861	(2 429 972)	(2 417 111)
TOTAL ADJUSTMENTS	4 021 135	(611 593)	3 409 542
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 18 571 426	$ 13 266 156	$ 31 837 582
Supplemental Disclosures of Cash Flow Information:			
Noncash Investing and Financing Activities:			
Amounts payable for charges deferred to be recovered	$ 194 646	$ -	$ 194 646
Unrealized investment income	$ -	$ 7 878	$ 7 878

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

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS
For the Year Ended September 30, 2015

	RPSA FUND 2015	CAMBRIDGE FUND 2015	TOTAL 2015
Cash Flows from Operating Activities:			
Received from Members and participants	$ 36 690 992	$ 223 757 156	$ 260 448 148
Payments to employees	(239 708)	-	(239 708)
Payments to suppliers	(16 252 524)	(195 306 874)	(211 559 398)
NET CASH PROVIDED BY OPERATING ACTIVITIES	20 198 760	28 450 282	48 649 042
Cash Flows from Noncapital Financing Activities:			
Increase (decrease) in due to other fund	78 435	(78 435)	-
Refunds and distributions to Members	(2 414 664)	(12 698 562)	(15 113 226)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(2 336 229)	(12 776 997)	(15 113 226)
Cash Flows from Capital and Related Financing Activities:			
Principal paid on bonds	(9 995 000)	-	(9 995 000)
Payment of interest	(4 753 875)	-	(4 753 875)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(14 748 875)	-	(14 748 875)
Cash Flows from Investing Activities:			
Purchases of substations and lines	(266 490)	-	(266 490)
Payment for charges deferred to be recovered	(295 000)	(2 936 147)	(3 231 147)
Interest received	53 853	-	53 853
NET CASH USED BY INVESTING ACTIVITIES	(507 637)	(2 936 147)	(3 443 784)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2 606 019	12 737 138	15 421 592
Cash and cash equivalents at beginning of year	33 001 935	19 861 431	52 863 366
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 35 607 954	$ 32 598 569	$ 68 206 523
Cash Components:			
Cash and cash equivalents	$ 696 082	$ 32 462 412	$ 33 158 494
Restricted cash and cash equivalents	34 911 872	136 157	35 048 029
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 35 607 954	$ 32 598 569	$ 68 206 523
Cash Flows from Operating Activities:			
Operating income	$ 15 060 265	$ 29 023 510	$ 44 083 775
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	3 800 377	-	3 800 377
Changes in Assets and Liabilities:			
Accounts receivable	983 366	1 916 957	2 900 323
Prepaid expenses - Unrestricted assets	18 388	-	18 388
Accounts payable - Restricted assets	391 221	-	391 221
Accounts payable - Unrestricted assets	(54 857)	(2 490 185)	(2 545 042)
TOTAL ADJUSTMENTS	5 138 495	(573 228)	4 565 267
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 20 198 760	$ 28 450 282	$ 48 649 042

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

Sam Rayburn Municipal Power Agency (the "Agency") was created in October 1979 by concurrent ordinances of the Texas cities of Jasper, Liberty and Livingston (the "Members") pursuant to Chapter 166, Acts of the 63rd Legislature of Texas, Regular Session, 1973 as amended by Chapter 143, Acts of the 64th Legislature, Regular Session, 1975, now codified at Utilities Code Section 163.001, *et seq.* (Vernon) (the "Act"). Under the provisions of the Act, the Agency is a separate municipal corporation, a political subdivision of the state, and body politic and corporate.

The Agency was created to act on behalf of the Members for the purpose of supplying the energy needs of its Members and participants including the Vinton Public Power Authority ("VPPA"), a Louisiana political subdivision created by the Town of Vinton, Louisiana.

In 1980, the Agency executed a Joint Ownership Participation and Operating Agreement to acquire a 20% undivided ownership interest in Nelson Coal Unit No. 6, a 550 megawatt coal-fired steam electric generating unit located near the Houston River near Westlake, Louisiana constructed by Gulf States Utilities Company ("Gulf States"), which became a wholly-owned subsidiary of Entergy Corporation in 1994.

In November 1998, the Agency sold its 20% interest in the Nelson Coal Unit No. 6 and exited the generation business. On November 1, 1998, the Agency entered into a Requirements Power Supply Agreement (the "RPSA") with Entergy Power Marketing Corp. (EPMC), which is now EWO Marketing, L.P. ("EWOM"). The RPSA allows the Agency to purchase its power requirements at a fixed price sufficient to service the retail loads and normal load growth of the Members it currently serves under the terms of its existing contracts until September 30, 2021 (Notes 6 and 7). There are additional contractual arrangements for power supply as further discussed in Note 7.

During 2002, VPPA and the Agency entered into a participation exit agreement in conjunction with the Agency's refunding of outstanding bonds (Note 5). In consideration of the payment of $15,778,548 by VPPA, along with the assignment of certain power supply resources, the power sales agreement between the VPPA and the Agency was terminated. The payment of $15,778,548 was placed into an escrow account and used to defease the 1993 bonds (Note 5).

In June 1985, the Agency entered into an agreement with the United States of America whereby the U.S. Army Corps of Engineers constructed a facility consisting of two hydroelectric generating units totaling eight nameplate megawatts at Town Bluff Dam on the Neches River (the Robert Douglas Willis Hydro Project). In return, the Agency entered into a fifty-year purchasing agreement with the Southwestern Power Administration of the U.S. Department of Energy effective December 1, 1989, to purchase the power generated by the Robert Douglas Willis Hydro Project at rates that will cover the cost of operating and maintaining the generating system. In addition, the Agency as a member of the Sam Rayburn Dam Electric Cooperative ("SRDEC") receives approximately 30% of the hydro-electric power output from the Corps of Engineers fifty-two megawatt Sam Rayburn Dam located on the Angelina River near Jasper, Texas under contract with Southwestern Power Administration.

In December, 2011, the Agency finalized the "Cambridge Project", which allowed it to enter into contractual power supply and purchase arrangements with Entergy operating companies and Entergy affiliates. It also resulted in the Agency obtaining a supplemental arrangement to the afore-mentioned RPSA. This resulted in the Agency being able to obtain new wholesale loads and provide firm power supply for its Member cities. The Cambridge Project is further explained in Note 7.

Basis of Accounting

The Agency follows the Federal Energy Regulatory Commission's Uniform System of Accounts and maintains accounting records on an accrual basis in accordance with U.S. generally accepted accounting principles, including the application of Financial Accounting Standards Board Codification Section 980 (formerly SFAS No. 71), *Accounting for the Effect of Certain Types of Regulation*, as it relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Agency complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*, the Agency has adopted the option to apply Financial Accounting Standards Board (FASB) statements and interpretations that do not conflict with or contradict GASB pronouncements.

Funds

In years prior to fiscal year 2012, the Agency utilized only one proprietary fund, which is designated in the financial statements as the *"RPSA"* fund. This fund has been and will continue to be utilized for all financial transactions associated with operations of the Agency under the *Required Power Supply Agreement* with EWOM and the hydro-electric power agreements discussed in Notes 1 and 5. The Agency's long-term debt is required to be recorded in and serviced from this fund.

During the year ended September 30, 2012, the Board of Directors approved the "*Cambridge"* fund. This proprietary fund is used to account for the operations of the Cambridge Project, which was implemented in fiscal year 2012 and is further explained in Note 7.

Capital Assets

Capital assets are recorded at cost, including capitalized interest on borrowed funds during construction. The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of the related assets. The cost of electrical plants and related equipment are depreciated over 30 to 34 years. Depreciation expense for the years ended September 30, 2016 and 2015 was $1,226,885 and $1,199,785, respectively.

Capitalized Interest

The Agency capitalizes interest in connection with major construction projects. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. The Agency did not have any capitalized interest for the years ended September 30, 2016 and 2015.

Restricted Cash and Cash Equivalents

The Agency's bond resolution requires the segregation of bond proceeds and prescribes the application of the Agency's revenues. Amounts classified as restricted cash and cash equivalents on the Statements of Net Position for the RPSA Fund represent cash and cash equivalents whose use is restricted by the bond resolution. Restricted cash in the Cambridge Fund represents amounts due to Vinton Public Power Authority.

Accounts Receivable and Revenue Recognition

Accounts receivable consist primarily of billings for power supplied to Members and Customers. No allowance for doubtful accounts has been provided because management considers all amounts to be fully collectible. The Agency recognizes revenue on sales when the electricity is provided to and used by the Members and Customers.

The Agency has a $539,976 receivable from VPPA as of September 30, 2016. This amount, included in the Cambridge Fund accounts receivable on the statement of net position, represents VPPA's portion (9.39%) of the required transmission facility upgrades by Entergy for the MISO system. See Note 4 for additional details regarding upgrades.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cost of Debt Issued in Excess of Debt Refunded and Costs to be Recovered from Future Revenues

The Agency meets the criteria and, accordingly, follows the reporting and accounting requirements of Financial Accounting Standards Board Codification Section 980 (ASC 980). Pursuant to ASC 980, certain costs, primarily depreciation of property and equipment and the amortization of the cost of debt issued in excess of debt refunded, do not require current funding and are not included as costs in the determination of current rates. To the extent that these costs will be recovered through future rates, the Agency defers these costs. Cost of debt in excess of debt refunded is amortized under the provisions of ASC 980 utilizing a regulatory method based on the bonds outstanding method over the life of the related bond issue. Other costs to be recovered from future revenues are either amortized by this same method or they are amortized based on the straight-line method. The Agency's management makes an annual assessment of the continued application of ASC 980 and the ability of the Agency to recover these deferred costs in future rates.

Bond Premium

The premium on the 2012 bonds is amortized using the effective interest method over the life of the bond issue. Premium amortization is required by generally accepted accounting principles to be recognized as a component of interest expense. Amortization approximated $2,013,000 and $2,266,000 in fiscal years 2016 and 2015, respectively.

Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents include cash on hand, certificates of deposit, and money market accounts for both restricted and unrestricted assets.

Rates

Rates and charges for providing wholesale power supply are reviewed and adopted by the Agency's board of directors. Power supply services by the Agency are not subject to state or federal regulation.

Operating and Non-Operating Expenses

The Agency distinguishes between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal operations. The principal operating revenues of the Agency are charges to Members and participants for sales and services. Operating expenses for the Agency include costs of sales and services, general and administrative services, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Income Taxes

As a political subdivision of the State of Texas, any income of the Agency is exempt from federal and state income tax under the controlling laws and regulations.

Marketable Securities

GASB Statement No. 72 (GASB No. 72), *Fair Value Measurement and Application,* requires investments to be reported at fair value based upon an established hierarchy of inputs. The Agency therefore reports marketable securities held at year-end at fair value. GASB Statement No. 31 (GASB No. 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires any changes in fair value during the period to be reported as income. The Agency therefore reports any changes in fair value of marketable securities held during the year in interest/investment income. See Note 3 for additional information.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from those estimates.

Refunds and Distributions to Member Cities

In accordance with the 2012 bond indenture of trust, if the Agency meets its covenant of net revenues being greater than 1.2 times the aggregate debt service requirements, Member cities are eligible to receive a refund from the RPSA fund of certain amounts contained in the refund account held by the Bank of New York. Refunds during the years ended September 30, 2016 and 2015 amounted to $4,120,442 and $2,414,664, respectively.

As further explained in Note 7, the Cambridge fund provides additional resources to the Member cities. The Agency has made distributions from the Cambridge fund to the Member cities amounting to $7,500,000 and $24,000,000 during the years ended September 30, 2016 and 2015, respectively, of which $-0- and $12,000,000 were recorded as due to members at September 30, 2016 and 2015, respectively. The Agency accounts for the distributions as non-operating expenses on the accompanying statement of revenue and expenses.

Deferred Inflows and Outflows

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Subsequent Events

Management has evaluated subsequent events through March 13, 2017, the date the financial statements were available to be issued.

NOTE 2 - CAPITAL ASSETS

Capital assets activity was as follows:

2016	BALANCE 10/01/2015	ADDITIONS	DELETIONS	BALANCE 09/30/2016
Capital Assets Being Depreciated:				
Hydroelectric plant	$ 21 956 269	$ -	$ -	$ 21 956 269
Substations and transmission	19 306 788	2 011 269	-	21 318 057
Furniture and fixtures	2 195	-	-	2 195
TOTAL CAPITAL ASSETS BEING DEPRECIATED	41 265 252	2 011 269	-	43 276 521
Less accumulated depreciation for assets in service	(30 421 876)	(1 226 885)	-	(31 648 761)
TOTAL CAPITAL ASSETS, NET	$ 10 843 376	$ 784 384	$ -	$ 11 627 760

NOTE 2 - CAPITAL ASSETS - CONTINUED

2015		BALANCE 10/01/2014		ADDITIONS		DELETIONS		BALANCE 09/30/2015
Capital Assets Being Depreciated:								
Hydroelectric plant	$	21 956 269	$	-	$	-	$	21 956 269
Substations and transmission		19 040 298		266 490		-		19 306 788
Furniture and fixtures		2 195		-		-		2 195
TOTAL CAPITAL ASSETS BEING DEPRECIATED		40 998 762		266 490		-		41 265 252
Less accumulated depreciation for assets in service		(29 222 091)		(1 199 785)		-		(30 421 876)
TOTAL CAPITAL ASSETS, NET	$	11 776 671	$	(933 295)	$	-	$	10 843 376

In 1989, the Agency purchased substations, which included the related equipment belonging to each Member. The associated substation of each Member was leased back to the Member for an initial lease term of 10 years at a nominal rate of $10 per year. At any time, the Members may repurchase the substations from the Agency at the original amount paid plus capital improvements made by the Agency, less the accumulated depreciation on such assets.

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

The bond resolution, under which the 2012 Revenue Bonds were issued, provides for the creation and maintenance of certain funds and accounts. The funds and accounts consist principally of deposits and investments in accordance with the bond resolution and applicable state law. The aggregate amount of assets in each of the Agency's funds and accounts is as follows:

		SEPTEMBER 30, 2016				
UNRESTRICTED FUNDS		RPSA FUND		CAMBRIDGE FUND		TOTAL
Held by Agency:						
Demand Deposit Accounts	$	397 225	$	-	$	397 225
Certificates of Deposit		300 000		-		300 000
Cash management fund		-		10 212 762		10 212 762
Marketable securities		-		12 780 602		12 780 602
	$	697 225	$	22 993 364	$	23 690 589
RESTRICTED FUNDS						
Held by the Agency:						
Cash management fund	$	-	$	137 026	$	137 026
Demand Deposit Account		60 759		-		60 759
	$	60 759	$	137 026	$	197 785
Held by the Trustee:						
Revenue Fund Account	$	34 660	$	-	$	34 660
Operating Reserve Fund Account		2 465 028		-		2 465 028
Bond Fund Debt Service Account		13 549 297		-		13 549 297
Bond Fund Reserve Account		12 585 227		-		12 585 227
Rate Stabilization Account		1 606 323		-		1 606 323
Operating Fund Account		1 012 049		-		1 012 049
Bond Escrow Fund Account		-		-		-
Rebate Fund		-		-		-
Refund Fund Account		2 208 694		-		2 208 694
TOTAL	$	33 461 278	$	-	$	33 461 278
Restricted Funds are Comprised of:						
Cash and cash equivalents	$	33 522 037	$	137 026	$	33 659 063
	$	33 522 037	$	137 026	$	33 659 063

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

	SEPTEMBER 30, 2015		
UNRESTRICTED FUNDS	RPSA FUND	CAMBRIDGE FUND	TOTAL
Held by Agency:			
Demand Deposit Accounts	$ 396 082	$ -	$ 396 082
Certificates of Deposit	300 000	-	300 000
Cash management fund	-	32 462 412	32 462 412
	$ 696 082	$ 32 462 412	$ 33 158 494
RESTRICTED FUNDS			
Held by the Agency:			
Cash management fund	$ -	$ 136 157	$ 136 157
Demand Deposit Account	125 130	-	125 130
	$ 125 130	$ 136 157	$ 261 287
Held by the Trustee:			
Revenue Fund Account	$ -	$ -	$ -
Operating Reserve Fund Account	2 449 482	-	2 449 482
Bond Fund Debt Service Account	13 219 062	-	13 219 062
Bond Fund Reserve Account	12 493 614	-	12 493 614
Rate Stabilization Account	1 551 854	-	1 551 854
Operating Fund Account	952 284	-	952 284
Bond Escrow Fund Account	5	-	5
Rebate Fund	-	-	-
Refund Fund Account	4 120 441	-	4 120 441
TOTAL	$ 34 786 742	$ -	$ 34 786 742
Restricted Funds are Comprised of:			
Cash and cash equivalents	$ 34 911 872	$ 136 157	$ 35 048 029

Interest rate risk is the risk that the fair value of investments will be adversely affected by a change in interest rates. The Agency's investment policy requires that funds are generally invested to match the anticipated cash flow and all accounts have a specified maximum maturity for investments. The majority of the Agency's funds are required to be invested for less than five years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard & Poor's and Moody's. The Agency's cash and cash equivalents held by the Trustee are comprised of cash management funds that are invested primarily in U.S. Treasury securities. The cash management funds held by the Agency are also invested primarily in U.S. Treasury securities. The Agency's marketable securities consist of U.S. Agency obligations with original maturities of less than five years. As of September 30, 2016, these securities held credit ratings of Aaa from Moody's and AA+ from Standard & Poor's.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of the investments, collateral securities, or deposits that are in the possession of the counterparty. All demand deposits accounts and certificates of deposit accounts held by the Agency are in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). At September 30, 2016, the Agency had approximately $125,000 of demand deposits that were not within the insurable limits established by the FDIC nor were they covered by pledged collateral.

Restricted assets held by the Trustee in the Bond Fund Debt Service Account and the Bond Fund Reserve Account are only available to meet the principal and interest payments on revenue bonds. Other assets held by the Trustee are available to meet the operating, operating reserve, and reserve and contingency requirements of its bond indenture agreements.

Fair Value Measurements

The Agency's investments are reported at fair value in the accompanying statements of net position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Agency believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, Level 1 measurements, and the lowest priority to measurements involving significant unobservable inputs, Level 3 measurements. The Agency uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Agency measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value; Level 3 inputs are only used when Level 1 or Level 2 inputs were not available.

The fair values for the Agency's investments for the years ended 2016 and 2015 are based on quoted market prices in active markets for identical assets which are considered Level 1 fair value measurements as defined by professional accounting standards. Fair values of assets and liabilities presented on the balance sheet measured on a recurring basis are as follows:

		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
September 30, 2016				
U.S. government agencies	$ 12 780 602	$ 12 780 602	$ -	$ -
September 30, 2015				
U.S. government agencies	$ -	$ -	$ -	$ -

Maturities for investments held at year-end are as follows:

	2016	2015
Due in one year or less	$ 5 990 466	$ -
Due after one year but less than five years	6 790 136	-
Due after five years but less than ten years	-	-
Due after ten years	-	-
	$ 12 780 602	$ -

NOTE 4 - COST OF DEBT ISSUED IN EXCESS OF DEBT REFUNDED AND COSTS TO BE RECOVERED FROM FUTURE REVENUES

	SEPTEMBER 30,	
	2016	2015
Cost of debt issued in excess of debt refunded (Note 5)	$ 46 365 237	$ 46 365 237
Less accumulated amortization	(10 972 517)	(9 803 591)
	$ 35 392 720	$ 36 561 646

Costs to be recovered from future revenues are comprised of the following:

	SEPTEMBER 30,	
	2016	2015
Beaumont Avenue transformer major repair	$ 255 958	$ 309 844
Deferred depreciation on R.D. Willis hydroelectric plant	5 057 657	5 861 153
Advances to SRDEC for generating facilities at Sam Rayburn Dam (Note 8)	1 775 091	295 000
Transmission facilities upgrade by Entergy for MISO system - Cambridge Fund	5 210 571	4 437 026
	$ 12 299 277	$ 10 903 023

NOTE 4 - COST OF DEBT ISSUED IN EXCESS OF DEBT REFUNDED AND COSTS TO BE RECOVERED FROM FUTURE REVENUES - CONTINUED

The Beaumont Avenue transformer major repair was incurred in fiscal year ended September 30, 2011 and is being amortized straight-line over a period of 10 years. Amortization was $53,886 in fiscal years 2016 and 2015, respectively.

Depreciation on the R.D. Willis hydroelectric plant is being deferred based on regulatory accounting methods pursuant to FASB ASC 980 (formerly FAS 71). Deferrals will cease in 2021 when the 2012 bond issue is fully matured. Amortized deferrals were $803,496 and $729,999 in fiscal years 2016 and 2015, respectively.

Advances to SRDEC (Sam Rayburn Dam Electric Cooperative)(refer to Note 1) for generating facilities at Sam Rayburn Dam represent contributions by the Agency to fund replacement generating facilities at Sam Rayburn Dam by the U.S. Army Corps of Engineers. SRDEC entered into an agreement with the Corps to fund the cost of these facilities in exchange for the Corps not passing the costs thru to SRDEC via a rate increase. The Agency receives approximately 30% of the electrical output from the Dam thru SRDEC and SRG&T receives the remainder. The Agency expects to fund an additional $67,000 towards this project (Note 8). Amortization will commence upon completion and it is expected to be straight-line over a period not to exceed 45 years.

Transmission facilities upgrade by Entergy for the MISO system (Note 8) represent costs incurred by the Agency in 2014, 2015, and 2016 for upgrades to facilities owned by Entergy, but used by the Agency for transmission of energy to its industrial customers in the Cambridge Project (Note 7). As the upgrades were considered effectively complete as of September 30, 2016, the costs will begin amortizing in 2017 on a straight-line basis over 20 years.

NOTE 5 - LONG-TERM DEBT

Bonds outstanding are as follows:

	SEPTEMBER 30, 2016	SEPTEMBER 30, 2015
2012 Bonds:		
Serial Bonds, 5.00%, due October 1, 2013 to 2021	$ 79 070 000	$ 90 080 000
TOTAL BONDS	79 070 000	90 080 000
Less: Current maturities	(11 565 000)	(11 010 000)
	$ 67 505 000	$ 79 070 000
Unamortized Premium	$ 5 458 109	$ 7 471 013

Principal and interest on bonds are payable from and secured by a pledge of the revenues of the Agency and assignment of a security interest in certain restricted funds.

On January 1, 1993, the Agency issued $153,420,000 of Power Supply System Revenue Refunding Bonds, Series 1993A (the 1993A Bonds). The net proceeds, after issuance costs, from the 1993A Bonds were used to purchase government obligations that were held in an escrow account and have matured and been used to pay the principal, redemption premium, and interest on $5,225,000 in 1982 Bonds and $123,400,765 in 1985 Bonds previously issued by the Agency.

Subsequently, on February 15, 1993, the Agency issued $89,595,000 of Power Supply System Revenue Refunding Bonds, Series 1993N (the 1993B Bonds). The net proceeds, after issuance costs, from the 1993B Bonds were used to purchase government obligations that were held in an escrow account and have matured and been used to pay the principal, redemption premium, and interest of $38,375,000 in 1985 Bonds and $42,400,000 in 1985A Bonds.

NOTE 5 - LONG-TERM DEBT - CONTINUED

On July 25, 2002, the Agency issued $185,310,000 of Power Supply System Revenue Refunding Bonds, Series 2002A through 2002D (the 2002 Bonds). The net proceeds, after issuance costs, from the 2002 Bonds were used to purchase government obligations that were held in an escrow account and have matured and been used to pay the principal, redemption premium, and interest on $132,220,000 in Series 1993A Bonds and $83,320,000 in Series 1993B Bonds previously issued by the Agency. The Series 2002A Bonds and the Series 2002B Bonds were subject to optional redemption on October 1, 2013.

On September 19, 2012, the Agency issued $124,010,077 of Power Supply System Revenue Refunding Bonds, Series 2012 (the 2012 Bonds). The net proceeds, after issuance costs, from the 2012 Bonds were used to purchase government obligations that were held in an escrow account and have matured and been used to pay the principal, redemption premium, and interest on $104,580,000 in Series 2002A Bonds and $40,000,000 in Series 2002B Bonds previously issued by the Agency. The Agency estimates the 2012 refunding will result in approximately $28,122,000 of net savings in debt service over the life of the issue and an economic gain of approximately $21,222,000.

As a result of the above mentioned transactions, the Agency defeased all of its remaining previously issued bonds. The difference between the carrying amounts of the respective bonds defeased and the net cost of defeasance as well as the unamortized costs of the prior refundings was deferred for recovery in future periods. The unamortized portion of this deferral is reflected on the statement of net position under Deferred Outflows as "Cost of Debt Issued in Excess of Debt Refunded".

Debt service requirements on the outstanding bonds are as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2016	$ 11 565 000	$ 3 953 500	$ 15 518 500
2017	12 215 000	3 375 250	15 590 250
2018	12 830 000	2 764 500	15 594 500
2019	13 470 000	2 123 000	15 593 000
2020	14 140 000	1 449 500	15 589 500
2021	14 850 000	742 500	15 592 500
TOTAL	$ 79 070 000	$ 14 408 250	$ 93 478 250

Long-term liability activity for the years ended September 30, 2016 and 2015 was as follows:

LONG-TERM LIABILITIES AS OF SEPTEMBER 30, 2016	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Bonds Payable:				
2012 Bonds	$ 90 080 000	$ -	$ (11 010 000)	$ 79 070 000
LONG-TERM LIABILITIES	$ 90 080 000	$ -	$ (11 010 000)	$ 79 070 000

LONG-TERM LIABILITIES AS OF SEPTEMBER 30, 2015	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Bonds Payable:				
2012 Bonds	$ 100 075 000	$ -	$ (9 995 000)	$ 90 080 000
LONG-TERM LIABILITIES	$ 100 075 000	$ -	$ (9 995 000)	$ 90 080 000

Management asserts that the Agency has satisfied all covenants related to debt outstanding for the periods presented. See page 32 for calculation of related ratios.

NOTE 6 - POWER SALES CONTRACTS

Power sales contracts exist with each of the Agency's Members for the sale of electric power that the Members require for the operation of their respective systems. The contracts will remain in effect until all outstanding bonds of the Agency have been retired (Note 5). Thereafter, the contracts will extend until either the Agency or a Member has given three years notice of the intent to cancel. In no event will the contracts expire before October 1, 2021. The power sales by the Agency to the Members were $32,860,971 and $34,678,960 for the years ended September 30, 2016 and 2015, respectively.

NOTE 6 - POWER SALES CONTRACTS - CONTINUED

As further explained in Note 7, in 2012, the Agency entered into four additional contracts for the sale of power acquired under the terms of the Cambridge Project. These contracts are for wholesale power to service industrial loads for two refineries - Citgo Petroleum Corporation and ConocoPhillips Company, a chemical company - Sasol North America, Inc. and an electric power provider - Entergy Texas, Inc. The contracts extend through October 1, 2035.

NOTE 7 - REQUIREMENTS POWER SUPPLY AGREEMENTS (*RPSA, Supplemental RPSA and Cambridge)*

RPSA

In November 1998, the Agency entered into a *Requirements Power Supply Agreement* (the "RPSA") with Entergy Power Marketing Corp. (EPMC), which later became a part of Entergy Koch Trading, L.P. (EKT). The RPSA allows the Agency to purchase its power requirements at a fixed price sufficient to service the retail loads and normal load growth of the Members it currently serves under the terms of its existing power sales contracts (Note 6) until September 30, 2021. The Agency currently purchases all power not supplied by the Robert Douglas Willis Hydro Project and Sam Rayburn Dam Project from EKT through EKT's assignee without novation, EWO Marketing, L.P. (EWOM), under the RPSA. Power supplies delivered under the RPSA are now administered by Entergy Asset Management (EAM). The value assigned to the RPSA of $59,605,565 is being amortized on a straight-line basis over the life of the agreement. Amortization expense for each of the years ended September 30, 2016 and 2015 totaled $2,600,592.

In July 2010, the Agency and EWOM entered into the SRMPA Full Requirements Power Supply Agreement for the City of Liberty/Boomerang Load. Liberty and Boomerang Tube, L.L.C. ("Boomerang"), a large industrial customer of Liberty, are parties to the certain Retail Power Purchase Agreement (the "Boomerang Retail Contract") to which Liberty will provide Boomerang with all electrical loads up to 35 MW, or upon request such greater amount not to exceed 40 MW, required by Boomerang to operate its steel pipe and tube production facility. The Agency entered into this agreement, in parallel to the RPSA, to supply Liberty with the electric energy that Liberty needs to satisfy its obligations under the Boomerang Retail Contract. The cost-based agreement will be in effect until September 30, 2021. Power sales under this agreement approximated $4,201,000 and $5,687,000 for the years ended September 30, 2016 and 2015, respectively; power purchases approximated $3,687,000 and $5,144,000, respectively. The power sale revenues and power purchases related to the Boomerang Retail Contract are not includable as "revenues" or "cost of revenues" under the Series 2012 bonds indenture (Note 5) and are not pledged as "net revenues" securing the 2012 Bonds.

Supplemental RPSA and Cambridge Project

The terms of the RPSA obligate EPMC to serve the Agency's load, net of the above-mentioned hydro-electric power arrangements, and normal load growth measured from a benchmark of 78 MW of which the Agency is entitled to 70.676 MW and VPPA, as part of the exit agreement mentioned in Note 1, is entitled to 7.324 MW. Load growth was stipulated to be 3% over a 5-year future rolling average compounded annually from the 70.676 MW benchmark, regardless of actual load growth. Since the Agency's load growth has grown at a rate of less than 3% annually since fiscal year 1999, capacity equal to the difference between the Agency's actual growth and growth at 3% per annum became available to meet future Agency annual load growth in excess of 3%.

NOTE 7 - REQUIREMENTS POWER SUPPLY AGREEMENTS (*RPSA, Supplemental RPSA and Cambridge)* - CONTINUED

During fiscal years 2010 and 2011, the Agency and VPPA engaged in negotiations with Entergy operating companies and Entergy affiliates regarding additional power supply arrangements, which could utilize the above-mentioned RPSA excess capacity. These negotiations were known as the "Cambridge Project", and from the project, new contractual power supply and purchase arrangements were entered into and became effective in December, 2011. The negotiations also resulted in the Agency being able to obtain a supplemental arrangement to its existing RPSA (*Supplemental RPSA or SRPSA*) with EWOM. The new contracts enabled the Agency to obtain four new wholesale loads and provide the Agency firm power supply for the next 25 years to serve its three Member cities (under the SRPSA). The four wholesale loads are two large oil refineries, a chemical company, and Entergy Texas, Inc. ("ETI") (Note 6). The two oil refineries and the chemical company are served and will continue to be served through VPPA. The additional power supply resources to the Agency include unit generation from third parties and power supply purchases from Entergy Gulf States Louisiana, LLC ("EGSL") and from EWOM. In addition, the Agency entered into contractual arrangements with EGSL and EWOM for power supply management and delivery.

The Cambridge Project supplements the existing Agency systems and the VPPA systems. VPPA will serve the three industrial loads with power provided by the Agency and purchased from an Entergy company. Under the Cambridge Project, the wholesale power supply to VPPA for the industrial load was reconfigured in part. Under the SRPSA with EWOM, the Agency replaced the right to increase purchases for load growth under the RPSA at a maximum 3% annual rate to a 2% annual growth rate, which is more in line with anticipated load growth rate. The 2% annual growth rate is applied to the 2010 reference year's peak load as the basis for determining the maximum load service obligation. The SRPSA assures an energy supply to the Agency beyond the 2021 termination of the RPSA to 2035, and provides that if the Agency has load growth above the anticipated rate, EWOM will provide service for such load. Should any of the Cambridge Project contractual arrangements be terminated, all Cambridge contracts will terminate and the Agency and VPPA systems will revert to their original condition with wholesale energy provided under the RPSA for the Agency to serve its participating Member cities.

The Cambridge Project is independent from the Agency's existing operations that secure the Agency's debt service obligations to holders of the 2012 Bonds (Note 5). The Agency's Net Revenues and funds and accounts established under the 2012 Bond Indenture are not commingled with Cambridge Project accounts and are not available to the Cambridge Project. Cambridge funds do not secure the 2012 Bonds.

In accordance with the afore-mentioned load arrangements, the Agency is obligated to VPPA for 9.39% of the Cambridge Project's net revenues, computed without regard to VPPA's portion. The Agency accounts for 100% of the revenues and expenses of the Cambridge Project and records as a power supply expense the 9.39% of net revenues allocable to VPPA.

In accordance with a protocol agreement between the Agency and VPPA, $1.5 million of net revenues from the Cambridge Project will be placed in operating reserves for each of the next 5 years to be maintained through the life of the contracts; however, this agreement is subject to change by mutual consent of the two parties. As of September 30, 2016, the Agency had $6,795,750 cash reserved in unrestricted assets and $137,026 (representing VPPA's portion) reserved in restricted assets for a total of $6,932,776 reserved under this agreement.

Refer to Note 11 for subsequent events related to the Cambridge Project.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state, and local standards and procedures that regulate the environmental impact of electric utilities are subject to change. These changes may arise from legislative, regulatory, and continuous judicial action regarding such standards and procedures. The Agency does not own nor lease any generation and is not aware of any noncompliance with current environmental regulations with respect to any of the units constituting its contract power supply.

Regulation

Electric Utility Restructuring

In 1999, the Texas Legislature approved Senate Bill 7, *Electric Utility Restructuring* (SB7), which provided for the restructuring of the Texas electric industry for the purpose of creating a competitive electric power market. The legislation provided that the pricing and supply of the generation of electricity would be unregulated beginning in January 2002. Under special provisions for cooperatives and municipally-owned utilities, the Agency's rates for the sale of wholesale power are no longer regulated by the Public Utility Commission of Texas ("PUCT"). Similarly, the rates of the Members for the sale of electricity are no longer regulated by the PUCT. The law permits the respective boards of directors to set rates.

Investor-owned utilities in the Electric Reliability Council of Texas ("ERCOT") were required to allow their retail customers to select generation suppliers of electricity as of January 2002. The law gives municipally-owned utilities boards of directors sole authority to allow, or not allow, generating suppliers to attempt to sell electricity to retail customers of a municipally-owned utility. Allowing retail customer choice is called "opting in". Even if a municipally-owned utilities board decides to opt in, retail customers will continue to use the transmission and distribution facilities of the utility. The Agency will closely monitor whether any of its Members will decide to opt in and thus evaluate the potential effects of a change in generation sales. The law allows the Agency to recover stranded costs if it experiences a loss of load which would impair payment of debt service and payment of purchased power fixed charges. As of September 30, 2016, none of the Members who are served by the Agency have elected to opt in.

In consideration of the aforementioned, it should be noted that Jasper and Livingston are surrounded by the service areas of electric cooperatives, which, as noted above, are not required to participate in retail competition under SB7, but which also have competed for years with these Members by proximity of their service areas. Similarly, EGS surrounds Liberty and, although having already made its SB7 rate reduction, EGS continues to be noncompetitive with Liberty in Liberty's *dual certified* area. As a result, the Members have 1) already engaged in retail competition with the *dual certified* annexed portions of their municipal service areas, 2) experienced and withstood retail competition at their retail service area boundaries, and 3) retained loads in their respective single certified portions of their respective service areas sufficient to meet their obligations.

Renewable Energy Credits

On June 1, 2001, the Agency filed with the PUCT an application to certify the Sam Rayburn Dam Project and the R. D. Willis Project as existing renewable resources and nominate the Renewable Energy Credit (REC) offsets. The Public Utility Regulatory Act established a renewable energy credits trading program that will ensure that 2,000MW of new renewable energy capacity is built in Texas as of 2009. Although the Agency is not obligated to purchase REC offsets if not participating in retail competition, generation of renewable resources and REC offsets may be sold by such a resource to competitive retailers. The application was approved in August 2001. The Agency is entitled to earn the 44,711 MWh and 26,374 MWh annual REC offsets for the Sam Rayburn Dam Project and the R.D. Willis Project respectively, as nominated. Senate Bill 20, enacted in August 2005, expanded the goal from 2,000 MW to 5,000 MW of new renewable energy capacity to be built by 2015 and includes a target of 500 MW of renewable capacity from non-wind renewable resources. The PUCT had requested comments be filed for the purpose of conducting rulemaking to implement Senate Bill 20. The Agency had filed comments in response to this request.

NOTE 8 - COMMITMENTS AND CONTINGENCIES - CONTINUED

PUCT legal comments have since amended §25.173 rules regarding renewable energy resources and enhanced the goal set out in Senate Bill 20 by raising the ceiling for qualification of hydropower as a small producer from 2 MW to 10 MW. For a renewable energy facility to be eligible to produce RECs for use in the renewable energy credits trading program, it must be either a new facility or a small power producer. Under the new definition, existing small hydropower units under 10 MW will be eligible to produce RECs and are no longer limited to election as REC Offsets. The R.D. Willis Project qualifies as a small hydroelectric facility and is eligible for participation in the renewable energy credits trading program. Renewable energy credits may be generated, transferred, and retired by renewable energy power generators. The Agency was in the process of considering an application to the PUCT for the R.D. Willis Project to participate in the renewable energy credits trading program. In January 2011, an additional proposal for rulemaking by the PUCT addressing the removal of REC Offsets at both hydropower facilities and re-registration and treatment as REC's was commented on by the Agency in support of this proposal to the PUCT. As of July 2011 (six months after the order), no action had been taken, causing the project to become automatically considered closed. The PUCT believes it will not be revived in the near future; therefore, the Agency will continue to hold the REC Offsets for each hydro as before until any further future updates occur.

Transmission

The regulated energy industry continues to experience significant changes. The Midcontinent Independent System Operator's (MISO) is the FERC-approved Regional Transmission Organization (RTO) responsible for coordinating transmission service, maintaining reliability, and administering wholesale power markets. FERC continues to support the establishment of large RTOs, which affect the structure of the wholesale market. To this end, on December 19, 2013, a four-state region of the electric grid across the South integrated into MISO's existing footprint in the Midwest adding over 18,000 miles of transmission and 50,000 megawatts of generation capacity. The integration added 10 new transmission owning companies, six local balancing authorities, and 33 new market participants from Mississippi, Louisiana, Arkansas, Texas, and Missouri to MISO. This new region - referred to as MISO South - includes the following transmission owners and local balancing authorities: Entergy (Arkansas, Mississippi, Louisiana, Texas, Gulf States, and New Orleans), CLECO Corp., Lafayette Utilities System, Louisiana Energy and Power Authority, Louisiana Generating, South Mississippi Electric Power Association, and East Texas Electric Cooperative. Also on December 19, 2013, among other market participants, the Agency entered MISO South as a load serving entity member on behalf of the cities of Jasper, Liberty and Livingston, Texas, plus Vinton, Louisiana. MISO membership will provide the Agency and its customers with a reliable, cost-effective option for its operations. Customers will obtain the benefits of a combined operation of a larger pool of power resources across a larger footprint, while also maintaining access to low-cost, clean and reliable power resources.

Among other functions, MISO administers a market-based platform for valuing transmission congestion premised upon a Locational Marginal Price (LMP) system. The LMP system includes the ability to mitigate or eliminate congestion costs through Auction Revenue Rights (ARRs) and Financial Transmission Rights (FTRs). ARRs are allocated to market participants by MISO and FTRs are purchased through auctions. The resulting ARR valuation and the secured FTRs are expected to mitigate transmission congestion risk for the period covered by the ARR/FTR. The Agency endeavors to secure sufficient ARRs to mitigate transmission congestion risk associated with scheduled deliveries from the Agency's generation resources to its load. The Agency does not otherwise engage in FTR-related transactions. Although the Agency has reserved firm transmission from its generation resources to serve its load and believes it is fully hedged against congestion costs, given the way in which ARRs are allocated under current MISO rules there is an inherent, unavoidable risk that the Agency potentially could be exposed at a given time to an ARR shortfall. The Agency believes the completion of certain transmission upgrades on the Entergy system (for which it has already paid) will further mitigate the Agency's exposure to congestion costs.

NOTE 8 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Power Supply

The RPSA and Supplemental RPSA, further explained in Note 7, provide the Agency with a delivered fixed cost power supply. As a result, the Agency is not faced with market driven increases in power supply, fuel, or delivery costs. In addition, that power supply backs up the Agency's hydropower supply. Management believes that the above factors will enable it to meet current and future obligations.

Power Costs

The Agency was able to reduce its annual debt service requirements through the refundings of its debt in 2002 and again in 2012. The Agency adjusts its coverage requirements to collect true coverage on debt service in order to demonstrate financial responsibility. The Agency also retains the right to refund all collections above those needed to meet operating requirements and debt service to its Members on an annual basis. The Agency's wholesale power cost is therefore a function of monthly energy and demand charges as well as this refund.

Other Commitments

During the fiscal year ended September 30, 2015, the Agency's Board of Directors approved a 3-year plan to replace 7 of the Agency's transformers. During the fiscal year ended September 30, 2016, the Agency's Board of Directors modified this plan to instead include the replacement of 6 transformers and the construction of an express feeder. The cost is expected to approximate $8,000,000. As of September 30, 2016, the Agency has expended approximately $1,900,000 on these projects. The Agency anticipates that the costs will be funded from the Cambridge Fund.

The Agency committed to Sam Rayburn Dam Electric Cooperative, Inc. during the fiscal year ended September 30, 2015 to contribute approximately $1,100,000 towards the cost of replacement generating facilities being installed by the U.S. Army Corps of Engineers at the Sam Rayburn Dam generating plant. The Agency has advanced approximately $1,780,000 as of September 30, 2016. These costs are being recorded as deferred outflows. The Agency made an additional payment of approximately $69,000 subsequent to year end, which is anticipated to be the Agency's final contribution. Upon completion of the project, the Agency will begin amortizing the costs over a period of no less than 45 years (Note 4).

In September 2016, the Board approved a restatement of the SRMPA Full Requirements Power Supply Agreement regarding the Boomerang load, offering Boomerang Tube, L.L.C. a discount from EWOM of $500,000 to be allowed ratably on a monthly basis for twelve months. This discount, granted by EWOM, will be passed through to Boomerang Tube L.L.C. by the Agency, and is therefore reported as a receivable and payable for the year ended September 30, 2016.

NOTE 9 - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

NOTE 10 - TRANSFERS AND INTERFUND BALANCES

During the fiscal year ended September 30, 2016, funds net of $2,725,236 were transferred from the Cambridge Fund to the RPSA Fund to be used for ongoing capital projects. The Agency also reported $193,454 and $33,466 as due from the Cambridge Fund to the RPSA Fund as of September 30, 2016 and 2015, respectively. This interfund balance is related to expenses of the Cambridge Fund which were paid by the RPSA Fund, and are expected to be repaid within one year.

NOTE 11 - SUBSEQUENT EVENTS

In October 2016, the Agency approved the distribution of $6 million to the Member Cities from the Cambridge Fund.

In December, 2016, the Agency was notified that the Louisiana Public Service Commission will be conducting a review (Docket No. S-34332) of Special Order 01-2001 to determine if it remains in the best interest of Louisiana ratepayers. The review of this order will encompass the provisions of the Cambridge Project (Note 7). While the Agency cannot predict with certainty when the review will be completed or the outcome, there is a possibility that it could adversely impact the continuation of the Cambridge Project.

SUPPLEMENTARY INFORMATION

SAM RAYBURN MUNICIPAL POWER AGENCY
SCHEDULES OF DEBT SERVICE COVERAGE
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues	$ 29 482 802	$ 30 020 203
Interest income	130 543	53 853
TOTAL INCOME	26 613 345	30 074 056
Cost of revenues less depreciation and amortization	11 619 362	11 703 451
NET REVENUES	$ 17 993 983	$ 18 370 605
Rate Stabilization Fund	$ 1 606 323	$ 1 551 854
Aggregate Debt Service Requirements:		
Interest on long-term debt	$ 3 953 508	$ 4 504 000
Principal on long-term debt	11 565 000	11 010 000
TOTAL AGGREGATE DEBT SERVICE REQUIREMENTS	$ 15 518 508	$ 15 514 000
Ratio of Net Revenues to Aggregate Debt Service Requirements	1.16	1.18
Ratio of Net Revenues and Rate Stabilization Fund to Aggregate Debt Service Requirements	1.26	1.28

The terms of the 2012 Bond Indenture require net revenues to be at least equal to the sum of the aggregate debt service times 1.20 beginning with the 2013 fiscal year. Also, pursuant to the terms of the 2012 Bond Indenture, the Agency is allowed to utilize the amount held in its Rate Stabilization Fund in the above calculation if the ratio of net revenues is at least 1.10, but less than 1.20. The Agency is required by the 2012 Bond Indenture to service the debt from the operations of the RPSA Fund. The above covenant is a requirement of the RPSA Fund. As explained in Note 5, the net revenues from the Boomerang contract are not included in the above calculation.

See independent auditors' report.