Your Home Owned Advantage

Annual Financial Report

September 30, 2009 and 2008

(With Independent Auditor's Report Thereon)

ELECTRIC UTILITY BOARD FOR FISCAL YEAR 2009

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John Owens
John Zwiacher
Marciano Morales
Loyd Rinehart
Chris Snead
Craig Wells
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Mike Davis

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Distribution Superintendent
Dale Stephens

Production Superintendent
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Don Cullon, P.E.

Finance Director Electric Utilities
Damian Pantoya, CPA, CIA

General Counsel – LP&L
Mathew L. Wade

CITY OF LUBBOCK:

Lee Ann Dumbauld: City Of Lubbock City Manager.

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Chief Financial Officer

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Director of Accounting

Brack Bullock
Senior Accountant

Linda Cruz, CPA
Senior Accountant

Veronica Valderaz
Senior Accountant

Dottie Lewis, CPA
Senior Accountant

Chelsea Pigg
Senior Financial Analyst

LUBBOCK POWER AND LIGHT Annual Report 2009

Lubbock Power and Light is a municipally owned utility established by the citizens of Lubbock in 1916.

MISSION To provide customers with reliable competitive electric service that:

- Is Responsible
- Emphasizes Integrity
- Helps Keep The Tax Rate Low
- Promotes Economic Development
- Promotes Community Service

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Lubbock Power and Light
City Electric System
Introduction
For the Years Ended September 30, 2009 and 2008

Lubbock Power and Light (LP&L) is pleased to present its Annual Financial Report for the fiscal years ended September 30, 2009 and 2008. This report is published to provide the Electric Utility Board, the City of Lubbock, the Bondholders, representatives of financial institutions, and other interested parties detailed information concerning the financial condition of LP&L.

LP&L is an enterprise activity of the City of Lubbock, Texas. LP&L operates the City electric utility. The accompanying financial statements present only LP&L. These financial statements are not intended to fairly present the financial position or results of operations of the City of Lubbock, Texas.

LP&L is managed by the Electric Utility Board (EUB). The EUB, established on November 2, 2004, is appointed by the Lubbock City Council and is empowered with the custody and management of LP&L operations. The Lubbock City Council retains authority for approval of the annual budget, rates for electric service, eminent domain, approval of debt financing and requiring the electric utility to pay an annual fee to the City equivalent to any fee outlined in pertinent ordinance.

LP&L management has prepared and is responsible for the financial statements and related information included in this report. Management believes that its policies and procedures provide guidance and reasonable assurance that LP&L operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion the financial statements present fairly, in all material respects, the net assets, changes in net assets and cash flows of LP&L in conformity with accounting principles generally accepted in the United States of America.

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Independent Accountants' Report

Board of Directors
Lubbock Power & Light
City of Lubbock, Texas

We have audited the accompanying financial statements of Lubbock Power & Light, an enterprise fund of the City of Lubbock, Texas, as of and for the years ended September 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of Lubbock Power & Light's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 1, the financial statements present only Lubbock Power & Light, an enterprise fund of the City of Lubbock, Texas, and do not purport to, and do not, present fairly the financial position of the City of Lubbock, Texas, as of September 30, 2009 and 2008, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1, in 2009, Lubbock Power and Light changed its method of accounting for pollution remediation obligations by implementing Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lubbock Power & Light, an enterprise fund of the City of Lubbock, Texas, as of September 30, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents and the Three-Year Historical Schedule of Actuarial Liabilities and Funding Progress on page 30 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

March 1, 2010

Lubbock Power and Light
Management's Discussion and Analysis
For the Years Ended September 30, 2009 and 2008

This discussion and analysis of Lubbock Power and Light's (LP&L) financial performance provides an overview of LP&L's activities for the fiscal years ended September 30, 2009 and 2008. Please read this information in conjunction with the accompanying financial analysis, financial report, and the accompanying notes to the financial statements.

Overview of Annual Financial Report

The financial statements report information about LP&L, the City of Lubbock's Electric System. The financial statements are prepared using accrual accounting methods utilized by similar business activities in the private sector. LP&L's annual reporting period end September 30 of each year.

The Statements of Net Assets include LP&L's assets and liabilities and provide information about the nature and amount of assets and obligations (liabilities) of LP&L as of the end of the year. They also provide the basis for the evaluation of capital structure, liquidity, and flexibility of LP&L.

The Statements of Activities present information showing how LP&L's net assets changed during the years ended September 30, 2009 and 2008. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Statements of Revenues, Expenses and Changes in Net Assets present the results of the business activities (revenues and expenses) over the course of the fiscal year and can provide information about LP&L's recovery of costs.

The Statements of Cash Flows present cash receipts, cash disbursements and net changes in cash resulting from operations, financing and related investing activities. This statement provides information such as where cash came from, what cash was used for and what the changes in cash balances were during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the City Electric System accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

Financial Analysis

The following selected condensed financial statements for LP&L provide key financial data as of and for the years ended September 30, 2009 and 2008.

Condensed Statements of Net Assets	2009	2008
Current assets	$ 94,584,980	$ 80,192,027
Capital assets, net	154,986,350	152,882,058
Noncurrent funds	10,287,230	9,847,790
Deferred charges	2,677,777	2,811,110
Total assets	262,536,337	245,732,985
Current liabilities	21,107,070	24,809,034
Noncurrent liabilities	81,181,701	79,518,787
Total liabilities	102,288,771	104,327,821
Net assets:		
Invested in capital assets, net of related debt	74,348,891	72,858,231
Restricted	6,107,864	6,006,670
Unrestricted	79,790,811	62,540,263
Total net assets	$ 160,247,566	$ 141,405,164
Condensed Statements of Activities		
Program revenues		
Charges for services	$ 132,731,430	$ 153,071,017
General revenues		
Investment earnings	1,372,147	2,765,622
Other revenues	700,727	2,032,645
Total revenues	134,804,304	157,869,284
Program expenses	111,696,396	145,100,725
Contributions	0	175,075
Excess before transfers	23,107,908	13,337,103
Transfers, net	(4,265,506)	(223,550)
Change in net assets	18,842,402	13,288,628
Net assets, beginning of period	141,405,164	128,116,536
Net assets, end of period	$160,247,566	$141,405,164

Financial Highlights

- LP&L's meter base totaled 74,930 and 72,949 customers at September 30, 2009 and 2008, respectively, an increase of 2.72%.
- Operating revenues for the years ending September 30, 2009 and 2008 were $132,731,430 and $153,071,017 respectively. The decrease in revenues is primarily due to lower fuel related revenues.
- Operating expenses for the years ending September 30, 2009 and 2008 were $108,386,139 and $141,748,255, respectively. The decrease in expenses is primarily due to lower fuel related energy costs.
- Net assets for the years ended September 30, 2009 and 2008 were $160,247,566 and $141,405,164, respectively, of which $79,790,811 and $62,540,263 were available to meet LP&L's ongoing obligations.
- LP&L's increase in capital assets is due mostly to additions to distribution infrastructure for new customer growth.

Long-Term Debt

In 2009, LP&L issued debt via the City of Lubbock Tax & Wastewater System Surplus Revenue CO, Series 2009 dated 03/01/2009. LP&L's allocation of the total City debt issued of $58,705,000 was $6,936,647. The debt matures serially through 2029. The proceeds from the sale of these bonds are restricted to the construction of distribution, transmission, and production facilities.

In 2008, the City issued General Obligation Bonds and Certificates of Obligation on behalf of LP&L in the amount of $6,498,295 dated 04/15/2008. The debt matures serially through 08/15/2027. The proceeds from the sale of these bonds are restricted to the construction of distribution, transmission, and production facilities.

Budgetary Highlights

The primary variances between the original budget and actual expenditures affecting Net Assets for the fiscal years 2009 and 2008 were the fluctuations in fuel costs. Both revenues and expenditures were affected by the changes in fuel costs. In 2009, natural gas prices decreased, which caused revenues to be 18% less than budgeted, while the production operations budget was about a third under its budget.

The natural gas price increases in FY08 resulted in LP&L increasing its electric sales budget and its production's budget in the amount of $17.99 million to account for the increased revenues and expenditures.

General Trends and Significant Events

March 11, 2009, LP&L received a ratings upgrade from Fitch Ratings, a leading global rating agency. Fitch boosted LP&L's rating from a 'BBB+' to 'A-' for the City of Lubbock's $16.5 million of outstanding electric light and power system revenue bonds.

April 8, 2008, LP&L received a rating upgrade from Standard & Poor's Ratings Services, a leading global rating agency. Standard & Poor's Ratings Services raised its underlying rating (SPUR) on Lubbock, Texas, doing business as Lubbock Power & Light (LP&L), electric system revenue bonds two notches to 'A-' from 'BBB' based on the system's sustained trend of improved financial performance due to a combination of a reduced operating profile risk and an increased market share in its competitive service area.

Other –
LP&L and Xcel Energy have reached a mutually beneficial agreement that will allow LP&L to purchase Xcel Energy's electricity distribution system within the city and to serve all of Xcel Energy's Lubbock retail electric customers. The purchase is expected to be completed sometime in the 2010 calendar year.

Economic Factors

Economic indicators for LP&L are development growth in the City of Lubbock, natural gas prices, coal prices and electricity use forecasts. Forecasts for generating fuel costs such as prices for natural gas and coal are good economic indicators for how well energy suppliers will perform financially. The Department of Energy forecasts key energy economic indicators and reports historical data. The City of Lubbock's economy is described below:

- In November 2009, the Total Nonagricultural Employment in the Lubbock MSA employment decreased by 300 jobs. Construction and Manufacturing were steady for the month. Retail added 300 positions over the month for a 1.9 percent gain. Education and Health Services added 100 jobs in November. Federal Government added 300 positions over the month. State Government lost 800 positions during the month. The Lubbock MSA lost 2,400 jobs over the 2009 calendar year through November, representing an annual job reduction of 1.8 percent.

Civilian Labor Force (C.L.F.) Estimates for Texas Metropolitan Statistical Areas
Not Seasonally Adjusted (In Thousands)

Geographic Area	October 2009				October 2008			
	C.L.F.	Emp.	Unemp.	%Rate	C.L.F.	Emp.	Unemp	%Rate
U.S.	153,635.0	139,088.0	14,547.0	9.5	155,012.0	145,543.0	9,469.0	6.1
Texas	12,069.7	11,090.4	979.3	8.1	11,831.1	11,194.3	636.8	5.4
Lubbock	144.0	136.2	7.8	5.4	140.5	135.0	5.5	3.9

Key economic factors that played a role in the operations of 2009 and will play a role in operations for 2010 as reported by the Department of Energy (DOE) are as follows:

- ***U.S. Electricity Consumption.*** The U.S. Energy Information Administration (EIA) assumes a 3.6 percent growth in manufacturing during 2010 that is expected to increase electricity sales to the industrial sector of about 1.1 percent. EIA forecasts electricity sales to the residential and commercial sectors to increase by 2.4 percent and 1.2 percent, respectively, in 2010 with total electricity consumption increasing by 1.6 percent.

- ***U.S. Electricity Retail Prices.*** EIA expects delivered natural gas fuel costs for generating electricity to rise by 10 percent next year. However, lower delivered coal costs combined with comparatively more generation from coal should reduce residential electricity prices by about 0.9 percent next year.

- EIA predicts the 2010 annual average natural gas Henry Hub spot price to be $4.62 Mcf. This represents a $0.67-per-Mcf increase from the estimated 2009 price of $3.95 per Mcf. Natural gas working inventories reached a new record-high level of 3.837 trillion cubic feet (Tcf) on November 27 as mild weather throughout much of the country contributed to uncommon storage builds for most of that month. Average household expenditures on natural gas for winter 2009/2010 as compared to winter 2008/2009 are projected to be 14% less.

- ***U.S. Natural Gas Prices.*** Prices were depressed as warmer-than-normal weather in November reduced seasonal residential and commercial space-heating consumption by about 7 percent. Strong domestic production, a retrenchment of electric-power-sector natural gas demand, and uncertainty about the extent of recovery in the industrial sector, should limit sustained upward price movements through the winter and well into next year.

Requests for Information

This report is designed to provide an overview of LP&L's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director Electric Utilities, Lubbock Power and Light, P.O. Box 2000, Lubbock, TX 79457.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Net Assets
September 30, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Pooled cash and cash equivalents	$ 410,452	$ 491,892
Investments	79,087,179	60,227,762
Receivables, net	14,642,065	18,870,298
Interest receivable	211,314	378,414
Inventories	233,970	223,661
Total current assets	94,584,980	80,192,027
Noncurrent assets:		
Restricted assets:		
Restricted investments	10,287,230	9,847,790
Deferred charges	2,677,777	2,811,110
Capital assets:		
Land	750,524	756,714
Construction in progress	15,766,414	14,207,964
Buildings	8,030,074	8,054,811
Improvements other than buildings	199,110,198	199,561,578
Machinery and equipment	58,062,491	56,974,517
Less accumulated depreciation	(126,733,351)	(126,673,526)
Total capital assets	154,986,350	152,882,058
Total noncurrent assets	167,951,357	165,540,958
Total Assets	$ 262,536,337	$ 245,732,985

See accompanying notes to basic financial statemetents.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Net Assets
September 30, 2009 and 2008

		2009		2008
LIABILITIES				
Current liabilities:				
Accounts payable	$	820,385	$	1,946,626
Accrued liabilities		1,759,420		1,761,681
Accrued interest payable		1,189,639		1,217,841
Due to other funds		5,644,964		9,009,713
Customer deposits		4,066,093		3,499,752
Compensated absences		1,192,795		1,183,514
Lease payable		1,099,928		1,067,930
Bonds payable		5,333,846		5,121,977
Total current liabilities		21,107,070		24,809,034
Noncurrent liabilities:				
Rebatable arbitrage		38,455		72,702
Compensated absences		1,373,574		1,264,172
Post employment benefits		943,392		506,873
Pension obligation		443,229		-
Leases payable		1,875,954		2,975,882
Bonds payable		76,507,097		74,699,158
Total noncurrent liabilities		81,181,701		79,518,787
Total Liabilities		102,288,771		104,327,821
NET ASSETS				
Invested in capital assets, net of related debt		74,348,891		72,858,231
Restricted for:				
Debt Service		6,107,864		6,006,670
Unrestricted		79,790,811		62,540,263
Total Net Assets	$	160,247,566	$	141,405,164

See accompanying notes to basic financial statemetents.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Activities
For The Years Ended September 30, 2009 and 2008

Functions/Programs	Expenses	Program Revenues Charges for Services	**2009** Net (Expense) Revenue and Changes in Net Assets Business-type Activities	**2008** Net (Expense) Revenue and Changes in Net Assets Business-type Activities
Business-type activities:				
Electric	$ 111,696,396	$ 132,731,430	$ 21,035,034	$ 7,970,292
Total	$ 111,696,396	$ 132,731,430	$ 21,035,034	$ 7,970,292
General revenues:				
Investment earnings			1,372,147	2,765,622
Disposition of assets			187,766	284,272
Miscellaneous			512,961	2,316,917
Contributions			-	175,075
Transfers, net			(4,265,506)	(223,550)
Total general revenues and transfers			(2,192,632)	5,318,336
Change in net assets			18,842,402	13,288,628
Net assets at beginning of year			141,405,164	128,116,536
Net assets at end of year			$ 160,247,566	$ 141,405,164

See accompanying notes to basic financial statements.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Revenues, Expenses, and Changes in Net Assets
For The Years Ended September 30, 2009 and 2008

		2009	2008
OPERATING REVENUES			
Charges for services	$	133,280,859	153,679,000
Provision for bad debts		(549,429)	(607,983)
Charges for services (net)		132,731,430	153,071,017
Total Operating Revenues		132,731,430	153,071,017
OPERATING EXPENSES			
Personal Services		13,388,165	12,305,453
Supplies		971,049	1,196,956
Maintenance		2,157,774	1,841,172
Purchase of fuel and power		76,960,825	112,852,968
Other services and charges		4,006,516	3,819,293
Depreciation and amortization		10,901,810	9,732,413
Total Operating Expenses		108,386,139	141,748,255
Operating income		24,345,291	11,322,762
NON-OPERATING REVENUES (EXPENSES)			
Interest income		1,372,147	2,765,622
Disposition of assets		187,766	284,272
Miscellaneous		512,961	2,316,917
Interest expense on bonds		(3,310,257)	(3,352,470)
Total non-operating revenues (expenses)		(1,237,383)	2,014,341
Income before contributions and transfers		23,107,908	13,337,103
Capital contributions		-	175,075
Transfers in		1,457,109	2,186,447
Transfers (out)		(5,722,615)	(2,409,997)
Transfers, net		(4,265,506)	(223,550)
Change in net assets		18,842,402	13,288,628
Total net assets - beginning of year		141,405,164	128,116,536
Total net assets - ending	$	160,247,566	141,405,164

See accompanying notes to basic financial statements.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Cash Flows
For The Years Ended September 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 137,126,763	$ 150,857,330
Payments to suppliers	(87,034,952)	(117,607,449)
Payments to employees	(13,388,165)	(12,570,948)
Other receipts	700,727	2,601,189
Net cash provided by operating activities	37,404,373	23,280,122
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	1,457,109	2,186,447
Transfers out to other funds	(5,722,615)	(2,409,997)
Net cash used by noncapital and related financing activities	(4,265,506)	(223,550)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(12,926,603)	(16,023,497)
Sale of capital assets	53,834	540,244
Payments on leases	(1,067,930)	(789,245)
Principal paid on bonds	(5,121,977)	(5,855,576)
Issuance of bonds	7,151,805	8,281,077
Bond issuance costs	(16,038)	(125,866)
Interest paid on bonds	(3,332,441)	(3,422,634)
Rebatable arbitrage	(34,247)	509
Net cash used for capital and related financing activities	(15,293,597)	(17,394,988)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	13,754,421	52,768,247
Purchase of investments	(33,053,278)	(61,380,798)
Interest earnings on cash and investments	1,372,147	2,765,622
Net cash used for investing activities	(17,926,710)	(5,846,929)
Net increase in cash and cash equivalents	(81,440)	(185,345)
Cash and cash equivalents - beginning of year	491,892	677,237
Cash and cash equivalents - end of year	$ 410,452	$ 491,892
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	24,345,291	11,322,762
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	10,901,810	9,732,413
Other income	700,727	2,601,189
Change in current assets and liabilities:		
Accounts receivable	4,395,333	(2,213,687)
Inventory	(10,309)	5,802
Accounts payable	(1,126,241)	869,426
Due to others	(3,364,749)	591,126
Other accrued expenses	996,170	74,823
Customer deposits	566,341	296,268
Net cash provided by operating activities	$ 37,404,373	$ 23,280,122
Supplemental cash flow information:		
Noncash capital improvements and other charges	$ -	$ 175,075

See accompanying notes to basic financial statements.

Note 1: Summary of Significant Accounting Policies

A. General Matters

The accompanying financial statements include only Lubbock Power & Light (LP&L), an enterprise fund of the City of Lubbock, Texas ("the City"). Lubbock Power and Light's financial statements are not intended to present fairly the financial position of the City, and the results of operations and the cash flows of its business type activities and major enterprise funds in conformity with generally accepted accounting principles. LP&L's Basic Financial Statements (BFS) are included as an enterprise fund in the City's Comprehensive Annual Financial Report; LP&L has no component units in its reporting entity. The City also administers other departments, whose operations are reflected in the Comprehensive Annual Financial Report of the City.

In 1916, the citizens of Lubbock voted to establish a municipal power company. It was organized to manage the electric power needs of the City of Lubbock, Texas. On September 28, 1917, the municipal power plant began producing electricity. On November 2, 2004, Lubbock voters elected to amend the Charter of the City to provide for an Electric Utility Board composed of nine Lubbock citizens and eligible voters appointed by City Council to govern, manage, and operate the City's electric utility. The City Council appointed the nine charter members of the Electric Utility Board on November 12, 2004 pursuant to the Charter Amendment. The purpose of the change is to secure LP&L's competitive position and long-term financial viability. Prior to November 2, 2004 the Electric Utility Board was an advisory board responsible for providing advice on the efficient operation, maintenance, extension, preservation, competitiveness, and promotion of an orderly economic and business like administration of LP&L.

LP&L's product is the generation, distribution, and service of electricity. The market in which it operates is defined as within the confines of its certificated areas as established by the Texas Public Utility Commission (PUC), which are within the city limits but not including the entire city limits. LP&L operates in three different certificated areas within the City. These areas are single, dual, and triple certificated areas. In single areas LP&L does not compete, it has either all or none of the service. In dual areas, LP&L only has one competitor and in triple certificated areas, LP&L has two competitors. LP&L's competitors are Xcel Energy and South Plains Electric Cooperative, Inc.

The PUC regulates certain utility rates, operations, and services within the State, however, LP&L is not considered a *public utility* and is therefore not subject to the jurisdiction of the PUC, except for its certificated areas of operation and certain reporting requirements under the Texas Public Utility Regulatory Act. LP&L is authorized to charge and collect reasonable rates necessary to produce revenues sufficient to pay operational and maintenance expenses, debt service requirements and other contractual commitments. LP&L is associated with the West Texas Municipal Power Agency (WTMPA). In 1983, the Texas cities of Lubbock, Brownfield, Floydada, and Tulia, created WTMPA as a joint power agency. WTMPA is a municipal power agency that was created to enhance the negotiating strength of the individual Cities in obtaining favorable firm electric power contracts and in coordinating joint planning for additional generation. An eight-member Board of Directors governs WTMPA. The board consists of two directors from each city. One member is elected the president and he presides over monthly meetings. WTMPA is shown as a blended component unit in the City's financial statements.

B. Significant Accounting Policies

The Basic Financial Statements (BFS) of LP&L are presented on the accrual basis and are in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental enterprise funds. LP&L has adopted the principles promulgated by the Government Accounting Standards Board (GASB).

In 1999, GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB No. 34), effective for LP&L for fiscal years 2002 and beyond. The statement requires certain information be included in the financial statements and specifies how that information should be presented.

The financial statements are prepared using the economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred regardless of the timing of related cash flows. Operating revenues are defined as revenues received from the sale of electricity and associated services. Revenues from capital and related financing activities and investment activities are defined as non-operating revenues. Restricted net assets represent constraints on resources that are imposed by bond indentures and may be utilized only for the purposes established by the bond indentures. Unrestricted net assets may be utilized for any purpose approved by the Electric Utility Board and by the City Council through the budget process. When both restricted and unrestricted net assets might be used to meet an obligation, LP&L first uses the restricted net assets.

<u>Financial Reporting</u>
LP&L applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

<u>Equity in Cash and Investments</u>
The City pools the resources of the various funds, including LP&L, to facilitate the management of cash and enhance investment earnings. Records are maintained that reflect each fund's equity in the pooled account. The investments are stated at fair value, which is based on quoted market prices as of the valuation date.

<u>Cash Equivalents</u>
Cash equivalents are defined as short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less when purchased, which present an insignificant risk of changes in value because of changes in interest rates.

<u>Investments</u>
Investments include Money Markets, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association securities. Restricted investments are cash equivalents and investments that have been restricted for bond financed capital projects. The State investment pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

B. Significant Accounting Policies (continued)

Trade Receivables

These receivables are primarily due from metered customers. One-half of metered revenues from the first month after fiscal year end is accrued and is reported in accounts receivables. The accrual represents unbilled consumption from the last month of the fiscal year. LP&L does not require collateral to support its trade receivables. Management believes the recorded receivables net of allowances of $2,287,437 and $2,723,698 for 2009 and 2008, respectively, are collectible.

Inventories

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the average cost method of valuation, and are accounted for using the consumption method of accounting, i.e., inventory is expensed when used rather than when purchased.

Capital Assets and Depreciation

Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. All expenses associated with the development and construction of LP&L's ownership interests in electric systems have been recorded at original cost and are being depreciated on a straight-line basis over the life of each asset. Donated assets are recorded at the estimated fair value on the date of donation.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are expensed when incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Infrastructure/Improvements	10-50 years
Vehicles	5 - 9 years
Buildings	15-50 years
Equipment	3-15 years

Construction in Progress

All expenses related to capital additions are capitalized as construction in progress until they are completed. Depreciation expense is recognized on these items after the projects are closed. LP&L capitalizes interest costs according to FASB Accounting Standard Codification 835, Interest. LP&L capitalized interest of approximately $569,708 net of interest earned during the fiscal year 2009 and $404,187 net of interest earned during the fiscal year 2008.

B. Significant Accounting Policies (continued)

Net Assets

Net assets are segregated into three categories:

- *Invested in Capital Assets Net of Related Debt* – This category of net assets includes the cost of capital assets less accumulated depreciation and less related capital debt.
- *Restricted* - Net assets are classified as restricted for construction and debt; consequently, net assets have been restricted for these amounts. The excess of other restricted assets over related liabilities are included as restricted net assets for bond proceeds and bond indentures requirements.
- *Unrestricted* – Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements

LP&L will implement the new GASB financial accounting and reporting standard Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." The requirements of this statement are effective for FY 2010, but the effect of implementing the statement is unknown.

Change in Accounting Principles

Effective October 1, 2008, LP&L implemented the following new financial accounting and reporting standard issued by GASB: Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." Prior to this, LP&L accounted for pollution remediation obligations under Financial Accounting Standards Board (FASB) Statement No. 5, "Accounting for Contingencies." GASB Statement No. 49 requires accrual of expense when the expected outlays is reasonably estimable, which FASB Statement No. 5 requires accrual of expected outlays that are probable. Implementing this GASB did not have a material effect on the financial statements.

Note 2: Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. LP&L's deposit policy for custodial credit risk requires compliance with the provisions of Texas Public Funds Investment Act.

State law requires collateralization of all deposits with federal depository insurance, eligible securities, or a surety bond having an aggregate value at least equal to the amount of the deposits. LP&L's Investment Policy requires the minimum collateral level to be 102% of market value of principal and accrued interest.

Note 2: Deposits and Investments (continued)

LP&L pools its monies with the City into one bank account. At September 30, 2009, bank balances exposed to custodial credit risk were as follows:

Insured	$ 633,657
Uninsured and uncollateralized	-
Uninsured and collateral held by pledging financial institution	905,036
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the City's name	-
Total	$1,538,690

Interest Rate Risk - As a means of limiting its exposure to fair value losses from increasing interest rates, LP&L's investment policy limits investments to those that can be held to maturity and limits final maturity to no more than five (5) years. The money market mutual funds and investment pools are presented as an investment with a maturity of less than one year because they are immediately redeemable in full.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. LP&L's policy allows investment in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities with the exception of mortgage backed securities. It allows investment in obligations of the State of Texas or its agencies and obligations of states, agencies, counties, cities, and other political subdivisions rated not less than A or its equivalent. It may also invest in fully collateralized repurchase agreements, fully collateralized certificates of deposit, commercial paper and bank acceptances with a stated maturity of 270 days or fewer from the date of issuance, AAA-rated, no-load money market mutual funds regulated by the Securities and Exchange Commission, and AAA-rated, constant dollar investments pools authorized by the City Council. At September 30, 2009, Standard & Poor's rated the investment pools and the money market mutual funds AAAm. The senior unsecured debt for investments in FNMA and FHLMC are rated AAA by Standard & Poor's and Aaa by Moody's.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, LP&L will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. LP&L requires deposits and repurchase agreements be held in an institution that has a minimum collateral level of 102% of the market value. FFCB, FHLB, FHLMC, and FNMA investments are held in the City's name in third party safekeeping by a Federal Reserve member financial institution designated as a City depository. The City shall maintain a list of authorized broker/dealers and financial institutions, which are approved by the Audit and Investment Committee for investment purposes.

Concentration of Credit Risk – LP&L places limits on the amount that may be invested in any one issuer with the exception of United States Treasury obligations. As of September 30, 2009, LP&L's investments constituted the following percentages of total investments: State Investment Pools – 77.44%, FHLB – 16.23%, FHLMC – 1.13%, FFCB – 3.13%, FNMA – 1.15%, and Money Market Funds – .92%.

Foreign Currency Risk - This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. LP&L has no foreign currency risk.

Note 2: Deposits and Investments (continued)

At September 30, 2009 and 2008, LP&L had the following investments and maturities:

	30-Sep-09			30-Sep-08		
		Maturities in Years			Maturities in Years	
Type	Fair Value	Less Than 1	1-5	Fair Value	Less Than 1	1-5
Money market mutual funds	$ 829,621	$ 829,621	$ -	$ 116,950	$ 116,950	$ -
Federal Home Loan Banks	14,588,754	13,564,491	1,024,263	12,430,196	6,934,546	5,495,650
Federal Home Loan Mortgage Corporation (FHLMC)	1,017,742	-	1,017,742	3,797,350	1,553,663	2,243,687
Federal National Mortgage Association (FNMA)	1,031,845	1,031,845	-	1,593,085	868,143	724,942
Federal Farm Credit Bank	2,812,524	1,013,829	1,798,695	2,588,158	1,204,647	1,383,511
Flex Repo	-	-	-	3,427,810	3,427,810	-
State Investment Pools *	69,504,376	69,504,376	-	46,122,003	46,122,003	-
	$ 89,784,861	$ 85,944,162	$ 3,840,699	$ 70,075,552	$ 60,227,762	$ 9,847,790

* State Investment Pools are considered investments for financial reporting.

Note 3: Interfund Transactions

Interfund balances, specifically the due to and due from other funds, are short-term receivables between LP&L and WTMPA. These outstanding balances are repaid within a month.

Interfund balances, specifically advances to and from other City funds, are longer-term loans to cover Council directed internal financing of certain projects. These balances are assessed an interest charge and are repaid over time through operations and transfers. At September 30, 2009 LP&L had zero dollars in internal financing.

Transfers in of $1,457,109 from other City funds to LP&L are the result of 1) General Fund transfers for the maintenance of City Street Lights of $1,061,848. 2) The North Overton District Tax Increment Financing (TIF) Fund transferred in $395,261 for improvements made to the TIF area by LP&L.

Transfers out of $5,722,615 from LP&L to other City funds are the result of 1) General Fund indirect cost allocations of $697,052; 2) payments to WTMPA for management and administration of $25,563; 3) and City franchise fee equivalents of $5,000,000.

Note 3: Interfund Transactions (continued)

The following interfund transfers are reflected in the financial statements (all amounts in thousands):

Interfund Transfers In

	2009	2008
Governmental Funds:		
General Fund	$1,062	$1,013
Proprietary Funds:		
Water	0	400
Sewer	0	200
Special Revenue Fund:		
TIF	395	574
Total	$1,457	$ 2,187

Interfund Transfers Out

	2009	2008
Governmental Funds:		
General Fund	$5,697	$ 1,796
Proprietary Funds:		
WTMPA	25	613
Total	$5,722	$ 2,409

Note 4: Inventory

The inventory at September 30, 2009 and 2008 was comprised of repair parts and fuel valued at $233,970 and $223,661, respectively.

Note 5: Deferred Charges

The total deferred charges of $2,677,777 in 2009 and $2,811,110 in 2008 represent an advertising contract with Texas Tech University. The amortization began when the United Sports Arena opened in fiscal year 2000 and is for a total of thirty years.

Note 6: Capital Assets

Capital asset activity for the year ended September 30, 2009 follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets not being depreciated:				
Land	$ 756,714	$ -	$ 6,190	$ 750,524
Construction in Progress	14,207,964	10,667,270	9,108,820	15,766,414
Total Capital Assets not being depreciated	14,964,678	10,667,270	9,115,010	16,516,938
Capital Assets being depreciated:				
Buildings	8,054,811	-	24,737	8,030,074
Improvements Other than Buildings	199,561,578	8,114,414	8,565,794	199,110,198
Machinery & Equipment	56,974,517	3,275,990	2,188,016	58,062,491
Total Capital Assets being depreciated	264,590,906	11,390,404	10,778,547	265,202,763
Less Accumulated depreciation for:				
Buildings	3,382,387	200,936	24,827	3,558,496
Improvements Other than Buildings	99,224,815	6,903,050	8,507,477	97,620,388
Machinery & Equipment	24,066,324	3,673,946	2,185,803	25,554,467
Total Accumulated Depreciation	126,673,526	10,777,932	10,718,107	126,733,351
Capital Assets being depreciated, Net	137,917,380	612,472	60,440	138,469,412
Capital Assets, Net	$ 152,882,058	$ 11,279,742	$ 9,175,450	$ 154,986,350

Capital asset activity for the year ended September 30, 2008 follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets not being depreciated:				
Land	$ 756,714	$ -	$ -	$ 756,714
Construction in Progress	10,295,363	13,944,443	10,031,842	14,207,964
Total Capital Assets not being depreciated	11,052,077	13,944,443	10,031,842	14,964,678
Capital Assets being depreciated:				
Buildings	8,054,811	-	-	8,054,811
Improvements Other than Buildings	191,579,813	8,131,379	149,614	199,561,578
Machinery & Equipment	54,328,662	3,733,897	1,088,042	56,974,517
Total Capital Assets being depreciated	253,963,286	11,865,276	1,237,656	264,590,906
Less Accumulated depreciation for:				
Buildings	3,185,711	196,676	-	3,382,387
Improvements Other than Buildings	93,043,242	6,276,276	94,703	99,224,815
Machinery & Equipment	21,963,601	3,126,125	1,023,402	24,066,324
Total Accumulated Depreciation	118,192,554	9,599,077	1,118,105	126,673,526
Capital Assets being depreciated, Net	135,770,732	2,266,199	119,551	137,917,380
Capital Assets, Net	$ 146,822,809	$ 16,210,642	$ 10,151,393	$ 152,882,058

Note 6: Capital Assets (continued)

Construction Commitments

Lubbock Power and Light has active construction projects at fiscal year end. Projects include the continued construction of distribution lines, substation expansion, improvements and developments and electric system improvements.

LP&L Construction Commitments at September 30, 2009

Original Commitments	Spent-to-Date	Remaining Commitiments
$20,728,935	$14,075,298	$6,653,637

Note 7: Retirement Plan

Each qualified employee is included in the Texas Municipal Retirement System (TMRS), which is LP&L's retirement plan. Neither the City nor LP&L maintains the accounting records, holds the investments or administers the retirement plan.

Plan Description
LP&L employees are included in the City's retirement system. When referring to the City, LP&L's portion is based on payroll and its TMRS employee contributions. LP&L provides pension benefits for all of its full-time employees through the City's pension benefits plan. The City provides benefits through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide TMRS, an agent multiple-employer public employee retirement system. The plan provisions that have been adopted are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The adopted plan provisions were as follows:

	Plan Year 2008	Plan Year 2009
Employee deposit rate	7.0%	7.0%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Note 7: Retirement Plan (continued)

Contributions

Under the State law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

LP&L contributes to the TMRS Plan at an actuarially determined rate. Both the employees and LP&L make contributions monthly. Since LP&L needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008 valuation is effective for rates beginning January 2010). The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution	$2,566,097
Interest on Net Pension Obligation	0
Adjustments to the ARC	0
Annual Pension Cost (APC)	2,566,097
Contributions Made	(2,122,868)
Increase (decrease) in net pension obligation	443,229
Net Pension Obligation/(Asset), beginning of year	0
Net Pension Obligation/(Asset), end of year	$ 443,229

Actuarial Assumptions

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Valuation Date	12/31/06	12/31/07	12/31/08
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Lever Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	25 years; open period	30 years; closed period	29 years; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.5%
Projected Salary Increase*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	NA	2.1%	2.1%

Note 7: Retirement Plan (continued)

Three-Year Trend Information

As of September 30	LP&L Annual Pension Cost	Percentage Of APC Made	Net Pension Obligation
2007	1,828,727	100.0	$ 0
2008	1,906,878	100.0	$ 0
2009	2,566,097	82.7	$ 443,229

As of December 31, 2008, the most recent actuarial valuation date, the plan was 60.3% funded. The actuarial accrued liability for benefits was $340.0 million, and the actuarial value of assets was $205.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $135.0 million. The covered payroll (annual payroll of active employees covered by the plan) was $76.1 million, and the ratio of the UAAL to the covered payroll was 177.4%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 8: Other Post Employment Benefits (OPEB)

Plan Description: LP&L participates in the City of Lubbock's OPEB plan as described. The City of Lubbock sponsors and administers an informal single-employer health/dental plan. Texas statute provides that retirees from a municipality with a population equal to or greater than 25,000 and that receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the person and the person's dependents unless the person is eligible for group health benefits coverage through another employer. The State of Texas has the authority to establish and amend the requirements of this statute. Neither L&L nor the City issue stand alone financial statements of the plan but all required information is presented in the City's Comprehensive Annual Financial Report.

Funding Policy: The contribution requirements of plan members are established by the City and may be amended as needed. Retiree medical/dental coverage levels are the same as coverage provided to active City employees in accordance with the terms and conditions of the current City Benefit Plan. Employees who retire with 15 or more years of service or Civil Service employees that retire who have a balance in excess of 90 days sick leave are eligible to continue receiving medical coverage in full 30 day periods for the term of their sick leave balance. The City contributes 33.9% to 58.8% of the monthly premium for the retiree only health premium and 7.9% for the retiree only dental premium. Plan members may purchase retiree health/dental care coverage for eligible spouses and dependents at their own expense and receive a benefit from the blended premium rate from all of the employees participating in the City's health insurance plans. The City is not required to make contributions to the plan on behalf of the retirees and funds the plan on a projected pay-as-you-go financing method. The plan has 542 active participants who pay monthly premiums between $272/$22 medical/dental for single coverage and $320/$27 medical/dental for family coverage.

Note 8: OPEB (continued)

Annual OPEB Cost and Net OPEB Obligation: The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of LP&L's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in LP&L's net OPEB obligation:

Annual required contribution	$777,049
Interest on net OPEB obligation	22,279
Adjustment to the ARC	(20,641)
Annual OPEB Cost	778,687
Total annual employer contribution (pay-as-you-go)	(342,168)
Increase in net OPEB obligation	436,519
Net OPEB obligation – beginning of year	506,873
Net OPEB obligation – end of year	$943,392

The components of the annual required contribution (ARC) calculation reflecting a 30 year amortization period is as follows:

Normal Cost	$ 377,178
Amortization of transition obligation	399,871
ARC	$ 777,049

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Year 2009 is as follows:

Fiscal Year Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
09/30/2008	$772,368	34.4%	$506,873
09/30/2009	$778,687	45.5%	$943,392

Funded Status and Funding Progress: As of September 30, 2008, the most recent actuarial valuation date, the plan was not funded. The City's actuarial accrued liability for benefits was $81,918,738, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $81,918,738. The covered payroll (annual payroll of active employees covered by the plan) was $88,185,412, and the ratio of the UAAL to the covered payroll was 92.9 percent. LP&L's percentage of the annual required contribution is calculated at 11.6%; hence LP&L's accrued liability for benefits was $9,533,283, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $9,533,283. The covered payroll (annual payroll of active employees covered by the plan) was $10,262,566, and the ratio of the UAAL to the covered payroll was 92.9%.

Note 8: OPEB (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. However, since this is the second year of implementation and there has only been one actuarial study (required biennially), no trend information is available to report.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 30, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return based on a long term rate of investment, a 3% annual salary increase projection, and an annual healthcare cost trend rate of 10% for 2007 and then reduced by decrements to an ultimate rate of 4.5% after fifteen years. The UAAL is being amortized as a level percentage of projected payroll on an open basis over thirty years

Note 9: Deferred Compensation

LP&L participates in the City deferred compensation program. LP&L offers its employees two deferred compensation plans in accordance with Internal Revenue Code ("IRC") Section 457. The plans are available to all LP&L's employees, and the plans permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans' assets are held in trust for the exclusive benefits of the participants and their beneficiaries.

Neither LP&L nor the City provide administrative services or have any fiduciary responsibilities for these plans; therefore, they are not presented in the BFS.

Note 10: Long-Term Liabilities

General Obligation Bonds and Certificates of Obligation

The City issued General Obligation Bonds and Certificates of Obligation on behalf of LP&L. The amounts are as follows:

Average Interest Rate	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-09*	Balance Outstanding 9-30-08**
4.60	08-15-03	04-15-23	$ 8,900,000	$ 6,775,000	$ 7,130,000
4.60	08-15-03	04-15-23	13,270,000	4,285,000	4,810,000
3.89	02-15-05	04-15-25	23,055,000	16,360,000	18,040,000
4.26	08-15-05	02-15-25	2,670,000	2,300,000	2,395,000
4.58	04-15-06	02-15-26	6,077,282	5,593,153	5,799,678
4.42	01-01-07	02-15-34	5,835,000	5,835,000	5,835,000
4.88	08-15-07	08-15-27	13,176,658	12,368,499	12,785,830
4.42	04-15-08	08-15-27	6,498,295	6,375,174	6,498,295
4.36	03-01-09	08-15-29	6,936,647	6,936,647	0
Total			$86,418,882	$66,828,473	$63,293,803

* Balance outstanding excludes ($1,337,199) of discounts and deferred losses and $1,934,660 of premiums.
** Balance outstanding excludes ($1,409,370) of discounts and deferred losses and $1,833,195 of premiums.

At September 30, 2009, management of LP&L believes that it was in compliance with all financial bond covenants on outstanding general obligation bonded debt, and certificates of obligation and revenue bonds.

Electric Revenue Bonds

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-09*	Balance Outstanding 9-30-08**
3.80 to 5.50	6-15-95	4-15-08	$13,560,000	$ 0	$ 0
4.25 to 6.25	1-01-98	4-15-18	9,170,000	4,140,000	4,600,000
3.10 to 5.00	1-15-99	4-15-19	14,975,000	5,100,000	5,900,000
4.00 to 5.25	7-01-01	4-15-21	9,200,000	5,520,000	5,980,000
Total			$ 46,905,000	$14,760,000	$16,480,000

*Balance outstanding excludes ($344,991) of discount on bonds sold. ** Balance outstanding excludes ($376,493) of discount on bonds sold.

Note 10: Long-Term Liabilities (continued)

The annual requirements to amortize LP&L's outstanding debt as of September 30, 2009 is as follows:

Fiscal	General Obligation Bonds		Revenue Bonds	
Year	Principal	Interest	Principal	Interest
2009-10	$ 3,618,846	$ 3,329,323	$ 1,715,000	$ 700,945
2010-11	3,815,633	3,033,006	1,705,000	624,848
2011-12	3,897,156	2,870,032	1,360,000	547,595
2012-13	3,998,276	2,700,259	1,360,000	484,450
2013-14	4,112,331	2,507,646	1,360,000	420,290
2015-19	21,062,041	9,353,638	6,340,000	1,122,190
2020-24	17,667,057	4,433,326	920,000	72,450
2025-30	8,657,133	815,030	-	-
Totals	$ 66,828,473	$ 29,042,259	$ 14,760,000	$ 3,972,768

The annual requirements for capital leases as of September 30, 2009, including interest payments of $163,721 are as follows:

Fiscal Year	Capital Lease Minimum Payment
2009-10	$ 1,186,275
2010-11	1,056,190
2011-12	682,607
2012-13	184,829
2013-14	5,940
2014-2018	23,762
Less:	
Interest	(163,721)
Net Present Value of Minimum Lease Payments	$ 2,975,882

The carrying values on the leased assets of the LP&L as of September 30, 2009 are as follows:

	Gross Value	Accumulated Depreciation	Net Book Value
LP&L Capital Leased Assets	$ 5,068,914	$ 842,899	$ 4,226,015

Note 10: Long-Term Liabilities (continued)

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2009 and 2008 are as follows:

Fiscal Year 2009	Balance 9/30/2008	Additions	Deletions	Balance 9/30/2009	Due in one year
LP&L activities:					
General					
Obligation Bonds	$63,717,627	$7,126,285	$3,417,978	$67,425,934	$3,618,846
Revenue Bonds	16,103,508	-	1,688,499	14,415,009	1,715,000
Capital Leases	4,043,812	-	1,067,930	2,975,882	1,099,928
Compensated Absences	2,447,686	1,306,522	1,187,839	2,566,369	1,192,795
Rebatable Arbitrage	72,702	-	34,247.00	38,455	-
Other Post Employment Benefits	506,873	436,519	-	943,392	-
Total LP&L activities	$86,892,208	$8,869,326	$7,396,493	$88,365,041	$7,626,569

Fiscal Year 2008	Balance 9/30/2007	Additions	Deletions	Balance 9/30/2008	Due in one year
LP&L activities:					
General					
Obligation Bonds	$60,190,528	$7,022,674	$3,495,575	$63,717,627	$3,401,977
Revenue Bonds	18,589,375	-	2,485,867	16,103,508	1,720,000
Capital Leases	3,574,654	1,258,403	789,245	4,043,812	1,067,930
Compensated Absences	2,482,678	1,200,030	1,235,022	2,447,686	1,183,514
Rebatable Arbitrage	72,193	509	-	72,702	-
Other Post Employment Benefits	-	506,873	-	506,873	-
Total LP&L activities	$84,909,428	$9,988,489	$8,005,709	$86,892,208	$7,373,421

In March 2009, the City issued $58,705,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2009. The Certificates of Obligation were issued at a premium of $1,820,888. After paying issuance costs of $135,726, the net proceeds were $60,390,162. LP&L's proceeds from the bonds were $6,936,647. Proceeds from the sale of these certificates will be used for the purpose of paying contractual obligations to be incurred for various electrical improvements and professional services rendered in connection therewith and costs associated with the issuance of the Certificates.

Proceeds from debt issuances are primarily capital related and are included in net assets invested in capital assets, net of related debt.

Note 11: Risk Management

LP&L participates in the City's insurance/risk management program. The City manages its insurance needs through the Risk Management Fund. The Risk Management Fund was established to account for liability claims, worker's compensation claims, and premiums for property/casualty insurance coverage. The Risk Management Fund generates its revenue through charges to other departments such as the Electric Fund (LP&L), which are based on costs.

In April 1999, the City purchased worker's compensation coverage, with no deductible, from a third party. Prior to April 1999, the City was self insured for worker's compensation claims. Any claims outstanding prior to April 1999 continue to be the responsibility of the City.

The City's self insurance liability program is on a cash flow basis, which means that the servicing contractor processes, adjusts and pays claims from a deposit provided by the City. The City accounts for the liability program by charging premiums based upon losses, administrative fees and reserve requirements. In order to control the risks associated with liability claims, the City purchased excess liability coverage in September 1999 that is renewed annually. The policy had a $10 million annual aggregate limit from September 1999 through September 30, 2009 and an $18 million annual aggregate limit since October 1, 2009 and is subject to a $250,000 deductible per claim prior to October 1, 2005, and a $500,000 deductible per claim since October 1, 2005.

For self-insured coverage, the Risk Management Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly for liability coverage. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claim liabilities are charged or credited to expense in the period in which they are incurred.

Additionally, property and boiler coverage is accounted for in the Risk Management Fund. The property insurance policy was purchased from an outside insurance carrier. The policy has a $250,000 deductible per occurrence, and the boiler coverage insurance deductible is up to $500,000 dependent upon the unit. Premiums are charged to LP&L based upon estimated premiums for the upcoming year.

Small insurance policies, such as surety bond coverage and miscellaneous floaters, and all other insurance activity are accounted for in the Risk Management Fund. LP&L is charged based on premium amounts and administrative charges. LP&L has had no significant reductions in insurance coverage during the fiscal year. Settlements in the current year and preceding two years have not exceeded insurance coverage.

Note 12: Health Insurance

LP&L participates in the City's medical and dental insurance programs. LP&L provides medical and dental insurance for all full-time employees that are accounted for in the Health Benefits Fund. Revenue for the health insurance premiums are generated from each cost center based upon the number of active full-time employees. The City's plan is self-insured under an Administrative Services Only (ASO) Agreement. The City purchases excess coverage of $200,000 per covered individual annually with an aggregate cap of $20,524,298. The insurance vendor based on medical trend, claims history, and utilization determines the aggregate deductible. The actuarially determined calculation of the claim liability is $1.36 million at September 30, 2009 for all health coverages including medical, prescription drugs and dental.

LP&L provides full-time employees basic term life insurance. The life insurance policy has a face value of $10,000 per employee.

Full-time employees may elect to purchase medical and dental insurance for eligible dependents at a reduced rate. Employees may also elect, at their cost, to participate in several voluntary insurance programs such as a cancer income policy, voluntary life and personal accident insurance.

Note 13: Contingent Liabilities

Litigation

LP&L is involved in various legal proceedings related to alleged personal and property damages; State law limits municipal liability for personal injury to $250,000/$500,000 and property damage to $100,000 per claim. Depending on the date of the occurrence, LP&L's insurance coverage, if available, contains either a $250,000 or a $500,000 self-insured retention depending on the date of the occurrence. The following represents the significant litigation against the LP&L at this time.

Jerry R. Avery, Erika Cleveland, Joy Elliott, Donna McMillian, and Diana Melcher v. City of Lubbock (Lubbock Power & Light)

Plaintiff's filed suit in December 2008 against the City of Lubbock/Lubbock Power & Light alleging damage to personal property from an electrical surge (electric appliances, computers, etc.) and related expenses (spoiled food, hotel expenses, etc.). The estimate of damages received by LP&L from the Plaintiffs is approximately $39,300 but could reach $60,000.

Note 14: Site Remediation

LP&L has identified specific locations requiring site remediation relative to underground fuel storage tanks and historical power generation sites. The potential exposure is estimated as of September 30, 2009. LP&L Plant 1 site's remaining expected liability is $67,500. LP&L Cooke fuel storage tanks' expected remaining liability is $465,200.

Note 15: Current Economic Conditions

The current protracted economic decline continues to present governmental entities with difficult circumstances and challenges, which in some cases have resulted in unanticipated declines in the fair value of investments and other assets, declines in governmental support, etc., constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the LP&L.

Current economic conditions, including the rising unemployment rate, may make it difficult for certain customers to pay for services rendered. A significant decline in governmental support and customer collections could have an adverse impact on LP&L's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact LP&L's ability to maintain sufficient liquidity.

Note 16: Subsequent Events

On November 12, 2009, LP&L and Xcel Energy have reached a mutually beneficial agreement that will allow LP&L to purchase Xcel Energy's electric distribution system within the city and to serve all of Xcel Energy's Lubbock retail electric customers. Since 1942 Lubbock has been served by both companies. Xcel Energy customers in Lubbock will be served by LP&L, but Xcel Energy will continue to supply the wholesale power and transmission services. Xcel Energy has received approval from the Xcel Energy Board of Directors to proceed with the sale of these assets at an agreed upon amount of $87 million, and the company is expected to gain regulatory approvals within the next nine months. LP&L has approval from the LP&L Electric Utility Board and the Lubbock City Council.

Required Supplementary Information

TEXAS MUNICIPAL RETIREMENT SYSTEM
THREE-YEAR HISTORICAL SCHEDULE OF ACTUARIAL LIABILITIES AND FUNDING PROGRESS (UNAUDITED)*

As of December 31	Actuarial Value of Assets*	Actuarial Accrued Liability*	Percentage Funded*	Unfunded Actuarial Accrued Liability (UAAL)*	Annual Covered Payroll**	UAAL as a % Of Covered Payroll*
2006	$33,857,261	$45,969,867	73.7%	$12,112,606	$11,647,229	104.0%
2007	29,987,797	48,836,906	61.4%	18,849,110	10,620,032	177.5%
2008	27,400,901	45,415,064	60.3%	18,014,163	10,154758	177.4%

*Based on LP&L's percentage of TMRS employee contributions of the City's total employee contributions calculated as of the last payroll for fiscal year: 2007, 16.94%; 2008, 14.98%; and 2009, 13.34%

**Based on Fiscal Years converted to Calendar Years.

CITYWIDE TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS); OTHER POSTEMPLOYMENT BENEFIT PLAN (OPEB)*

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio as a Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of covered Payroll ((b-a)/c))
12/31/06	TMRS	$199,865,768	$271,368,756	$ 71,502,988	73.7	$ 68,755,777	104.0
12/31/07	TMRS	200,185,558	326,014,062	125,828,504	61.4	70,894,738	177.5
12/31/08	TMRS	205,404,057	340,442,759	135,038,702	60.3	76,122,620	177.4
09/30/08	OPEB	-	81,918,738	81,918,378	-	88,185,412	92.9

*Health/Dental Care Insurance Plan

The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to termination, disability, mortality and the time value of money to the accumulated plan benefits.

The TMRS board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Prior to 2007, TMRS used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. The City has adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the City's amortization period was changed from a 25-year "open" to a 30-year "closed" period. These changes resulted in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been $78,725,302 and the funded ratio would have been 71.8%.