



Lubbock Power and Light Annual Financial Report 2010

POWERFUL ACHIEVEMENT



LP&L earns 2010 System Achievement Award

The Texas Public Power Association awarded Lubbock Power & Light with the 2010 System Achievement Award. LP&L was recognized by the Texas Public Power Association as the top municipally-owned electric utility in the state.

The award was given to LP&L for being widely recognized in the public power field, having enhanced the prestige of public power and having improved service to customers.

By running the utility like a business, LP&L can provide competitive rates and excellent customer service. And now, we're consolidating utility service while keeping your electric rates among the lowest in the state.

Thanks, Lubbock. By keeping decisions about your electric service local, you're helping make sure that the POWER IS YOURS.



www.lpandl.com

Lubbock Power & Light

The power is yours.



Your Home Owned Advantage

Annual Financial Report

September 30, 2010 and 2009

(With Independent Auditor's Report Thereon)



**ELECTRIC UTILITY
BOARD FOR FISCAL
YEAR 2010**

W.R. Collier, Chairman
John Zwiacher
Marciano Morales
Loyd Rinehart
Chris Snead
Craig Wells
SuzAnn Kirby
Mike Davis
Gail Kring

PRINCIPAL OFFICIALS:

Chief Executive Officer
Gary Zheng, PhD, P.E.

Distribution Superintendent
Dale Stephens

Production Superintendent
David Goode

Director of System Planning
Don Cullon, P.E.

Finance Director Electric Utilities
Damian Pantoya, CPA, CIA

General Counsel – LP&L
Matthew L. Wade

CITY OF LUBBOCK:

Lee Ann Dumbauld: City Of Lubbock City Manager.

Andy Burcham
Chief Financial Officer

Pam Moon, CPA
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 2010



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, 2010 and 2009**

Lubbock Power and Light (LP&L) is pleased to present its Annual Financial Report for the fiscal years ended September 30, 2010 and 2009. 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.

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, 2010 and 2009, 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. 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, 2010 and 2009, 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.

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, 2010 and 2009, and the 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 and pension and other postretirement benefit information as listed in the table of contents are not a required part of the basic financial statements but are 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, up

March 16, 2011

Lubbock Power and Light Management's Discussion and Analysis

For the Years Ended September 30, 2010 and 2009

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, 2010 and 2009. 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 ends 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 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 Highlights

- LP&L's meter base totaled 75,144 and 74,930 customers at September 30, 2010 and 2009, respectively. The meter base totaled 72,949 customers at September 30, 2008, which was an increase of 2.72% from 2008 to 2009.
- Operating revenues for the years ending September 30, 2010 and 2009 were \$143,222,344 and \$132,731,430 respectively. The increase in revenues was primarily due to increased fuel related revenues. Operating revenues for the year ending September 30, 2008 were \$153,071,017. The decrease in revenues in 2009 from 2008 was primarily due to lower fuel related revenues.
- Operating expenses for the years ending September 30, 2010 and 2009 were \$123,734,984 and \$108,386,139, respectively. The increase in expenses was primarily due to higher fuel related energy costs. Operating expenses for the year ending September 30, 2008 were \$141,748,255. The decrease in expenses from 2008 to 2009 was primarily due to lower fuel related energy costs.
- Net assets for the years ended September 30, 2010 and 2009 were \$169,213,696 and \$160,247,566, respectively, of which \$87,412,798 and \$79,790,811 were available to meet LP&L's ongoing obligations. Net assets for the year ended September 30, 2008 were \$141,405,164, of which \$62,540,263 were available to meet LP&L's ongoing obligations.
- LP&L's increase in capital assets is mostly due to additions to the distribution infrastructure for new customer growth.

Lubbock Power and Light Management's Discussion and Analysis

For the Years Ended September 30, 2010 and 2009

Financial Analysis

The following selected condensed financial statements for LP&L provide key financial data as of and for the years ended September 30, 2010, 2009 and 2008.

<u>Condensed Statements of Net Assets</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 107,465,159	\$94,584,980	\$80,192,027
Capital assets, net	153,335,106	154,986,350	152,882,058
Noncurrent funds	13,093,601	10,287,230	9,847,790
Deferred charges	<u>2,544,443</u>	<u>2,677,777</u>	<u>2,811,110</u>
Total assets	<u>276,438,309</u>	<u>262,536,337</u>	<u>245,732,985</u>
Current liabilities	31,566,842	21,107,070	24,809,034
Noncurrent liabilities	<u>75,657,771</u>	<u>81,181,701</u>	<u>79,518,787</u>
Total liabilities	<u>107,224,613</u>	<u>102,288,771</u>	<u>104,327,821</u>
Net assets:			
Invested in capital assets, net of related debt	75,923,264	74,348,891	72,858,231
Restricted	5,877,634	6,107,864	6,006,670
Unrestricted	<u>87,412,798</u>	<u>79,790,811</u>	<u>62,540,263</u>
Total net assets	<u>\$ 169,213,696</u>	<u>\$ 160,247,566</u>	<u>\$ 141,405,164</u>
<u>Condensed Statements of Activities</u>			
Program revenues			
Charges for services	\$ 143,222,344	\$ 132,731,430	\$ 153,071,017
General revenues			
Investment earnings	92,511	1,372,147	2,765,622
Other revenues	<u>542,031</u>	<u>700,727</u>	<u>2,032,645</u>
Total revenues	<u>143,856,886</u>	<u>134,804,304</u>	<u>157,869,284</u>
Program expenses	<u>128,058,334</u>	<u>111,696,396</u>	<u>145,100,725</u>
Contributions	<u>342,353</u>	<u>0</u>	<u>175,075</u>
Excess before transfers	16,140,905	23,107,908	13,337,103
Transfers, net	<u>(7,174,775)</u>	<u>(4,265,506)</u>	<u>(223,550)</u>
Change in net assets	8,966,130	18,842,402	13,288,628
Net assets, beginning of period	<u>160,247,566</u>	<u>141,405,164</u>	<u>128,116,536</u>
Net assets, end of period	<u>\$169,213,696</u>	<u>\$160,247,566</u>	<u>\$141,405,164</u>

Long-Term Debt

In 2010, LP&L issued debt via the City of Lubbock Tax & Waterworks System Surplus Revenue CO, Series 2010A dated 01/21/2011. LP&L's allocation of the \$48,955,000 City debt is \$5,968,441. The debt matures serially through 2030. The proceeds from the sale of these bonds are restricted to the construction of distribution, transmission, and production facilities.

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.

Lubbock Power and Light Management's Discussion and Analysis

For the Years Ended September 30, 2010 and 2009

Budgetary Highlights

The primary variances between the original budget and actual expenditures affecting Net Assets for the fiscal years 2010 and 2009 were the fluctuations in fuel costs. Both revenues and expenditures were affected by the changes in fuel costs.

In 2010, natural gas prices increased, which caused revenues to be greater than budgeted, while the production operations budget was increased to accommodate the additional 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.

General Trends and Significant Events

Fitch Ratings-New York-11 October 2010: Fitch Ratings assigns an 'A-' rating to the \$75,815,000 City of Lubbock, TX (the city) series 2010 electric light and power system revenue bonds issued on behalf of Lubbock Power & Light (LP&L). Fitch also places the series 2010 bonds and \$76.5 million of outstanding LP&L electric light and power system revenue bonds (rated 'A-') on Rating Watch Positive.

The placement on Rating Watch Positive is due to LP&L's planned acquisition of electric distribution assets from Southwestern Public Service Company (SPS). The acquisition effectively buys-out SPS, which is LP&L's principal and direct competitor. While some competition would still exist, it would be very limited and confined to a small section of the service area.

NEW YORK, Oct 6, 2010 -- Moody's Investors Service has assigned an A1 rating to the City of Lubbock's (TX) \$75.815 million Electric Light and Power System Revenue Bonds, Series 2010. At the same time, Moody's has assigned a stable outlook and affirmed the A1 rating on the System's outstanding revenue bonds.

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on the city of Lubbock, Texas' electric system revenue bonds by three notches, to 'AA-', and removed the ratings from CreditWatch. The outlook is stable.

On Oct. 5, 2010, we placed the ratings on Creditwatch with positive implications on the expected approval by the New Mexico Public Regulatory Commission of a 2009 agreement between the city's electric system (d.b.a. Lubbock Power & Light, or LP&L) and Southwestern Public Service Co. (SPS; A-/Stable/A-2), a subsidiary of Xcel Energy. On Oct. 14, 2010, the New Mexico PRC approved the deal, which effectively ends the competitive situation that has existed between LP&L and SPS since 1942, and makes LP&L the sole retail electric provider in Lubbock. Approval from the New Mexico PRC was the final step in completing the deal. The Public Utility Commission of Texas approved it in July 2010, and Federal Energy Regulatory Commission approval was not required.

Subsequent Events

On October 20, 2010, LP&L entered the bond market with the sale of its Electric Light and Power System Revenue Bonds (the Bonds). The Bonds were issued for the purpose of (i) acquiring the distribution system of Southwestern Public Service Company (SPS) located in Lubbock, and (ii) financing the construction of capital improvements for LP&L. The \$87,000,000 total purchase price of the SPS system was funded with \$67,000,000 from the bond proceeds and \$20,000,000 in LP&L operating cash. The purchase transaction was finalized October 29, 2010.

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

Lubbock Power and Light Management's Discussion and Analysis

For the Years Ended September 30, 2010 and 2009

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:

- ❖ From Oct-2009 to Oct-2010, the Total Nonagricultural Employment in the Lubbock MSA employment decreased by 300 jobs. Construction and Manufacturing were increased by 300 for the year. The annual growth rate for Education and Health Services industry was 2.4 percent, and has gained 500 positions over the year. Government decreased by 1,200 positions over the year. The Lubbock MSA gained 900 jobs over the year.

**Civilian Labor Force (C.L.F.) Estimates for U.S., Texas and Lubbock
Metropolitan Statistical Areas**
Not Seasonally Adjusted (In Thousands)

Geographic Area	October 2010				October 2009			
	C.L.F.	Emp.	Unemp.	%Rate	C.L.F.	Emp.	Unemp.	%Rate
U.S.	153,652.0	139,749.0	13,903.0	9.0	153,635.0	139,088.0	14,547.0	9.5
Texas	12,158.6	11,193.4	965.2	7.9	12,069.7	11,090.4	979.3	8.1
Lubbock	146.9	138.3	8.6	5.9	144.0	136.2	7.8	5.4

Key economic factors that played a role in the operations of 2010 and will play a role in operations for 2011 as reported by the Department of Energy (DOE) are as follows:

- ❖ **U.S. Electricity Consumption.** The U.S. Energy Information Administration (EIA) expects a 4.7 percent increase in total annual consumption of electricity across all sectors during 2010 and little change during 2011.
- ❖ **U.S. Electricity Retail Prices.** Average retail residential electricity prices in the U.S. began showing year-over-year declines about one year ago. Beginning this past spring, prices began to increase slightly year-over-year as higher fuel costs incurred by utilities were passed through to retail customers. EIA expects this trend to intensify over the next two quarters before moderating late next year. Annual average prices should grow by 1.7 percent during 2011.
- ❖ **U.S. Natural Gas Prices.** Natural gas working inventories have reached more than 3.8 trillion cubic feet (Tcf), which is about the same as last year's record-setting level for the underground storage quantity at the end of October. The projected Henry Hub natural gas spot price averages \$4.35 per million Btu (MMBtu) for 2010, a \$0.40-per-MMBtu increase over the 2009 average. EIA expects the Henry Hub spot price will average \$4.31 per MMBtu in 2011.
- ❖ **U.S. Coal Consumption.** EIA forecasts that coal consumption in the electric power sector will grow by 6 percent in 2010, primarily the result of higher electricity consumption. Forecast increases in nuclear- and renewable-based generation combined with a 0.1-percent drop in electricity consumption in 2011 contribute to a decline in coal-fired electricity generation and related coal consumption. EIA expects that 2011 coal consumption in the electric power sector will decline by 0.2 percent
- ❖ **U.S. carbon dioxide (CO₂)** emissions from fossil fuels, which declined by 7.0 percent in 2009, will increase by 3.5 percent in 2010. In 2011, projected CO₂ emissions increase by a further 0.4 percent as the expected milder summer reduces electricity use. However, even with these increases, CO₂ emissions remain below their level in any year from 1999 through 2008.

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Pooled cash and cash equivalents	\$ 126,949	\$ 410,452
Investments	89,653,972	79,087,179
Receivables, net	17,437,173	14,642,065
Interest receivable	24,350	211,314
Inventories	222,715	233,970
Total current assets	<u>107,465,159</u>	<u>94,584,980</u>
Noncurrent assets:		
Restricted assets:		
Investments	13,093,601	10,287,230
Receivables, net		
Interest receivable		
Deferred charges	2,544,443	2,677,777
Capital assets:		
Land	1,092,472	750,524
Construction in progress	9,586,902	15,766,414
Buildings	8,030,074	8,030,074
Improvements other than buildings	214,858,424	199,110,198
Machinery and equipment	57,651,799	58,062,491
Less accumulated depreciation	<u>(137,884,565)</u>	<u>(126,733,351)</u>
Total capital assets	<u>153,335,106</u>	<u>154,986,350</u>
Total noncurrent assets	<u>168,973,150</u>	<u>167,951,357</u>
Total Assets	<u>\$ 276,438,309</u>	<u>\$ 262,536,337</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Net Assets
September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 936,901	\$ 820,385
Accrued liabilities	1,750,221	1,759,420
Accrued interest payable	1,100,316	1,189,639
Due to other funds	8,567,265	5,644,964
Customer deposits	4,526,788	4,066,093
Compensated absences	1,342,413	1,192,795
Lease payable	999,376	1,099,928
Bonds payable	<u>12,343,562</u>	<u>5,333,846</u>
Total current liabilities	<u>31,566,842</u>	<u>21,107,070</u>
Noncurrent liabilities:		
Rebatable arbitrage	20,428	38,455
Compensated absences	1,394,840	1,373,574
Post employment benefits	1,791,935	943,392
Pension Obligation	1,165,697	443,229
Leases payable	867,224	1,875,954
Bonds payable	<u>70,417,647</u>	<u>76,507,097</u>
Total noncurrent liabilities	<u>75,657,771</u>	<u>81,181,701</u>
Total Liabilities	<u>107,224,613</u>	<u>102,288,771</u>
NET ASSETS		
Invested in capital assets, net of related debt	75,923,264	74,348,891
Restricted for:		
Debt Service	5,877,634	6,107,864
Unrestricted	<u>87,412,798</u>	<u>79,790,811</u>
Total Net Assets	\$ <u>169,213,696</u>	\$ <u>160,247,566</u>

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Charges for services	\$ 143,894,317	133,280,859
Provision for bad debts	(671,973)	(549,429)
Charges for services (net)	<u>143,222,344</u>	<u>132,731,430</u>
Total Operating Revenues	<u>143,222,344</u>	<u>132,731,430</u>
OPERATING EXPENSES		
Personal Services	15,157,181	13,388,165
Supplies	1,116,411	971,049
Maintenance	2,775,986	2,157,774
Purchase of fuel and power	88,464,687	76,960,825
Other services and charges	4,461,060	4,006,516
Depreciation and amortization	<u>11,759,659</u>	<u>10,901,810</u>
Total Operating Expenses	<u>123,734,984</u>	<u>108,386,139</u>
Operating income	<u>19,487,360</u>	<u>24,345,291</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	92,511	1,372,147
Disposition of assets	(645,380)	187,766
Miscellaneous	542,031	512,961
Interest expense on bonds	<u>(3,677,970)</u>	<u>(3,310,257)</u>
Total non-operating revenues (expenses)	<u>(3,688,808)</u>	<u>(1,237,383)</u>
Income before contributions and transfers	15,798,552	23,107,908
Capital contributions	342,353	-
Transfers (in)	-	1,457,109
Transfers (out)	<u>(7,174,775)</u>	<u>(5,722,615)</u>
Transfers, net	<u>(7,174,775)</u>	<u>(4,265,506)</u>
Change in net assets	8,966,130	18,842,402
Total net assets - beginning of year	160,247,566	141,405,164
Total net assets - ending	<u>\$ 169,213,696</u>	<u>160,247,566</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Cash Flows
For The Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 140,427,236	\$ 137,126,763
Payments to suppliers	(91,574,681)	(87,034,952)
Payments to employees	(15,157,181)	(13,388,165)
Other receipts	542,031	700,727
Net cash provided by operating activities	<u>34,237,405</u>	<u>37,404,373</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	-	1,457,109
Transfers out to other funds	(7,174,775)	(5,722,615)
Net cash used by noncapital and related financing activities	<u>(7,174,775)</u>	<u>(4,265,506)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(10,328,939)	(12,926,603)
Sale of capital assets	50,831	53,834
Principal paid on capital leases	(1,109,282)	(1,067,930)
Principal paid on bonds	(5,333,846)	(5,121,977)
Issuance of bonds	6,294,380	7,151,805
Bond issuance costs	(30,828)	(16,038)
Interest paid on bonds and capital leases	(3,767,293)	(3,332,441)
Rebatable arbitrage	(27,467)	(34,247)
Net cash used for capital and related financing activities	<u>(14,252,444)</u>	<u>(15,293,597)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	-	13,754,421
Purchase of investments	(13,373,164)	(33,053,278)
Interest earnings on cash and investments	279,475	1,372,147
Net cash used for investing activities	<u>(13,093,689)</u>	<u>(17,926,710)</u>
Net decrease in cash and cash equivalents	(283,503)	(81,440)
Cash and cash equivalents - beginning of year	410,452	491,892
Cash and cash equivalents - end of year	<u>\$ 126,949</u>	<u>\$ 410,452</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	19,487,360	24,345,291
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	11,759,659	10,901,810
Other income	542,031	700,727
Change in current assets and liabilities:		
Accounts receivable	(2,795,108)	4,395,333
Inventory	11,255	(10,309)
Accounts payable	116,516	(1,126,241)
Due to others	2,922,301	(3,364,749)
Other accrued expenses	(9,199)	996,170
Customer deposits	460,695	566,341
Compensated absences	1,741,895	-
Net cash provided by operating activities	<u>\$ 34,237,405</u>	<u>\$ 37,404,373</u>
Supplemental cash flow information:		
Noncash capital improvements and other charges	\$ 342,353	\$ -

See accompanying notes to basic financial statements.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2010 and 2009

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 Electric Utility Board is responsible for providing oversight 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. On October 29, 2010, LP&L purchased Xcel's Lubbock distribution assets for \$87 million. See Note 14.

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.

Financial Reporting

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.

Equity in Cash and Investments

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.

Cash Equivalents

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.

Investments

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 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 SFAS 34, codified in FASB Accounting Standard Codification 835. LP&L capitalized interest of approximately \$320,841 net of interest earned during the fiscal year 2010 and \$569,708 net of interest earned during the fiscal year 2009.

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.

Interfund Transactions

Interfund transactions are accounted for as revenues, expenditures, expenses, or other financing sources or uses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from that fund that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. In addition, transfers are made between funds to shift resources from a fund legally authorized to receive revenue to a fund authorized to expend the revenue. See Note 3 for further information.

Implementation of New Accounting Principles

For the fiscal year ended September 30, 2010, GASB issued pronouncements applicable to LP&L financial reporting.

Statement 51 – Intangible Assets

LP&L implemented the new GASB financial accounting and reporting standards issued by the GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets.” The requirements of this statement are effective for FY 2010. The financial effect for implementing the statement was an increase of capital assets of \$519,580.

For the fiscal year ended September 30, 2009, GASB issued pronouncements applicable to LP&L financial reporting.

Statement 56 – Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards

The objective of the statement is to adopt current guidance found in SAS for:

- ❖ Related party transactions
- ❖ Subsequent events

B. Significant Accounting Policies (continued)

❖ **Going concern considerations**

This statement does not establish new accounting standards. It incorporates existing guidance (to the extent appropriate in a government environment) into the GASB standards.

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.

LP&L pools its monies with the City. At September 30, 2010, bank balances exposed to custodial credit risk were as follows:

Insured	\$ 750,000
Uninsured and uncollateralized	-
Uninsured and collateral held by pledging financial institution in the City's name	1,639,650
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the City's name	-
Total	<u>\$2,389,650</u>

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 obligations of investment in 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, 2010, 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.

Note 2: Deposits and Investments (continued)

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, 2010, LP&L's investments constituted the following percentages of total investments: State Investment Pools – 92.87%, FHLB – 2.60%, FHLMC – 0.87%, FFCB – 0.87%, FNMA – 2.60%, and Overnight Sweeps – 0.19%.

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.

At September 30, 2010 and 2009, LP&L had the following investments and maturities:

Type	30-Sep-10			30-Sep-09		
	Maturities in Years			Maturities in Years		
	Fair Value	Less Than 1	1-5	Fair Value	Less Than 1	1-5
Repurchase agreements	\$ 198,781	\$ 198,781	\$ -	\$ -	\$ -	\$ -
Money market mutual funds	-	-	-	829,621	829,621	-
Federal Home Loan Banks	2,674,800	891,600	1,783,200	14,588,754	13,564,491	1,024,263
Federal Home Loan Mortgage Corporation (FHLMC)	892,045	-	892,045	1,017,742	-	1,017,742
Federal National Mortgage Association (FNMA)	2,681,858	-	2,681,858	1,031,845	1,031,845	-
Federal Farm Credit Bank	890,785	890,785	-	2,812,524	1,013,829	1,798,695
State Investment Pools *	95,536,253	95,536,253	-	69,504,376	69,504,376	-
	<u>\$ 102,874,522</u>	<u>\$ 97,517,419</u>	<u>\$ 5,357,103</u>	<u>\$ 89,784,861</u>	<u>\$ 85,944,162</u>	<u>\$ 3,840,699</u>

* 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.

At September 30, 2010 LP&L had zero dollars in internal financing.

There were zero Transfers (in) for fiscal year ended September 30, 2010. For fiscal year 2010, the accounting for Street Lighting O&M was recorded as a reimbursement to LP&L. For fiscal year 2009,

Note 3: Interfund Transactions (continued)

the City transferred \$1.062 million to LP&L for Street Lighting O&M and directly paid for the electricity.

Transfers (out) of \$7,174,775 from LP&L to other City funds are the result of 1) General Fund indirect cost allocations of \$807,398; 2) payments to WTMPA for management and administration of \$306,756; 3) and City franchise fee equivalents of \$6,060,621.

Interfund Transfers In (in thousands)

	<u>2010</u>	<u>2009</u>
Governmental Funds:		
General Fund – Street Lights	\$0	\$1,062
Special Revenue Fund:		
TIF	0	395
Total	\$0	\$ 1,457

Interfund Transfers Out (in thousands)

	<u>2010</u>	<u>2009</u>
Governmental Funds:		
General Fund	\$6,868	\$5,697
Proprietary Funds:		
WTMPA	306	25
Total	\$7,174	\$ 5,722

Note 4: Inventory

The inventory at September 30, 2010 and 2009 was comprised of repair parts and fuel valued at \$222,715 and \$233,970, respectively.

Note 5: Deferred Charges

The total deferred charges of \$2,544,443 in 2010 and \$2,677,777 in 2009 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, 2010 follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets not being depreciated:				
Land	\$ 750,524	\$ 341,948	\$ -	\$ 1,092,472
Construction in Progress	15,766,414	9,224,441	15,403,953	9,586,902
Total Capital Assets not being depreciated	16,516,938	9,566,389	15,403,953	10,679,374
Capital Assets being depreciated:				
Buildings	8,030,074	-	-	8,030,074
Improvements Other than Buildings	199,110,198	16,037,388	289,162	214,858,424
Machinery & Equipment	58,062,491	778,051	1,188,743	57,651,799
Total Capital Assets being depreciated	265,202,763	16,815,439	1,477,905	280,540,297
Less Accumulated depreciation for:				
Buildings	3,558,496	196,945	-	3,755,441
Improvements Other than Buildings	97,620,388	8,026,347	433,066	105,213,669
Machinery & Equipment	25,554,467	3,709,616	348,628	28,915,455
Total Accumulated Depreciation	126,733,351	11,932,908	781,694	137,884,565
Capital Assets being depreciated, Net	138,469,412	4,882,531	696,211	142,655,732
Capital Assets, Net	\$ 154,986,350	\$ 14,448,920	\$ 16,100,164	\$ 153,335,106

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

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, 2010

Original Commitments	Spent-to-Date	Remaining Commitments
\$37,624,935	\$23,792,178	\$13,832,757

Note 7: Retirement Plan

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

Plan Description

LP&L provides pension benefits for all of its full-time employees through the City's pension benefits plan. When referring to the City, LP&L's portion is based on payroll and its TMRS employee contributions. 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 2010	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, 2009 valuation is effective for rates beginning January 2011). The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution	\$3,119,166
Interest on Net Pension Obligation	35,260
Adjustments to the ARC	<u>28,708</u>
Annual Pension Cost (APC)	3,183,134
Contributions Made	<u>(2,460,666)</u>
Increase (decrease) in net pension obligation	722,468
Net Pension Obligation/(Asset), beginning of year	<u>443,229</u>
Net Pension Obligation/(Asset), end of year	<u>\$ 1,165,697</u>

Actuarial Assumptions

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	30 years; closed period	29 years; closed period	28 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.5%	7.5%
Projected Salary	Varies by age and service	Varies by age and service	Varies by age and service
*Inflation	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

Note 7: Retirement Plan (continued)

Three-Year Trend Information

As of September 30	City Annual Pension Cost	Percentage Of APC Made	Net Pension Obligation
2008	\$1,828,727	100.0	\$ 0
2009	2,566,097	82.7	443,229
2010	3,183,134	77.3	1,165,697

As of December 31, 2009, the most recent actuarial valuation date, the plan was 60.8% funded. The actuarial accrued liability for benefits was \$354.1 million, and the actuarial value of assets was \$215.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$138.7 million. The covered payroll (annual payroll of active employees covered by the plan) was \$75.9 million, and the ratio of the UAAL to the covered payroll was 182.6%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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 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. 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 571 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 (ARC) of the employer, 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	\$1,257,453
Interest on net OPEB obligation	43,575
Adjustment to the ARC	<u>(40,372)</u>
Annual OPEB Cost	1,260,656
Total annual employer contribution (pay-as-you-go)	<u>(412,113)</u>
Increase in net OPEB obligation	848,543
Net OPEB obligation – beginning of year	<u>943,392</u>
Net OPEB obligation – end of year	<u>\$1,791,935</u>

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

Normal Cost	\$ 627,865
Amortization of transition obligation	<u>629,588</u>
ARC	<u>\$ 1,257,453</u>

LP&L's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Year 2010 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
09/30/2010	1,260,656	34.7%	1,791,935

Funded Status and Funding Progress: As of September 30, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$126,167,945, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$126,167,945. The covered payroll (annual payroll of active employees covered by the plan) was \$95,693,148, and the ratio of the UAAL to the covered payroll was 131.8 percent. LP&L's percentage of the annual required contribution is calculated at 11.66%, hence, LP&L's accrued liability for benefits was \$14,711,182 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$14,711,182. The covered payroll (annual payroll of active employees covered by the plan) was \$11,157,821, and the ratio of the UAAL to the covered payroll was 131.8 percent.

Note 8: OPEB (continued)

Actuarial Methods and Assumptions: In the September 30, 2009, actuarial valuation, the projected unit credit actuarial cost method was used to calculate the GASB ARC for the City's health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The project unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employee methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Investment rate of return	4.5% net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Inflation assumption	3.0% per year
Healthcare trend	9.0% per year in 2010 decreasing by 0.5% per year to an ultimate rate of 4.5% in 2019

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial accrued liability for benefits.

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 9-30-10*	Balance Outstanding 9-30-09**
4.60	08-15-03	04-15-23	\$ 8,900,000	\$ 6,410,000	\$ 6,775,000
4.60	08-15-03	04-15-23	13,270,000	3,745,000	4,285,000
3.89	02-15-05	04-15-25	23,055,000	14,705,000	16,360,000
4.26	08-15-05	02-15-25	2,670,000	2,200,000	2,300,000
4.58	04-15-06	02-15-26	6,077,282	5,377,940	5,593,153
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	11,932,671	12,368,499
4.42	04-15-08	08-15-27	6,498,295	6,169,103	6,375,174
4.36	03-01-09	08-15-29	6,936,647	6,834,913	6,936,647
5.10	02-15-10	02-15-30	5,410,997	5,410,997	0
5.10	02-15-10	02-15-30	557,444	557,444	0
Total			<u>\$92,387,323</u>	<u>\$69,178,068</u>	<u>\$66,828,473</u>

* Balance outstanding excludes (\$1,278,803) of discounts and deferred losses and \$2,130,433 of premiums.

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

At September 30, 2010, 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 9-30-10*	Balance Outstanding 9-30-09**
4.25 to 6.25	1-01-98	4-15-18	\$ 9,170,000	\$ 3,680,000	\$ 4,140,000
3.10 to 5.00	1-15-99	4-15-19	14,975,000	4,305,000	5,100,000
4.00 to 5.25	7-01-01	4-15-21	9,200,000	5,060,000	5,520,000
Total			<u>\$ 33,345,000</u>	<u>\$13,045,000</u>	<u>\$14,760,000</u>

*Balance outstanding excludes (\$313,489) of discount on bonds sold. ** Balance outstanding excludes (\$344,991) 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, 2010 is as follows:

Fiscal Year	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2010-11	\$ 3,898,562	\$ 3,390,354	\$ 8,445,000	\$ 624,848
2011-12	4,109,760	3,100,276	460,000	547,595
2012-13	4,216,725	2,923,030	460,000	484,450
2013-14	4,342,120	2,719,355	460,000	420,290
2014-15	4,475,645	2,509,253	460,000	355,000
2016-20	21,690,141	9,136,037	2,300,000	815,491
2021-25	18,521,925	4,129,527	460,000	24,151
2026-31	7,923,190	652,937	-	-
Totals	<u>\$ 69,178,068</u>	<u>\$ 28,560,769</u>	<u>\$ 13,045,000</u>	<u>\$ 3,271,825</u>

The annual requirements for capital leases as of September 30, 2010, including interest payments of \$77,075 are as follows:

Fiscal Year	Capital Lease Minimum Payment
2010-11	\$ 1,048,994
2011-12	680,148
2012-13	184,829
2013-14	5,941
2014-15	5,941
2015-2018	17,822
Less:	
Interest	(77,075)
Net Present Value of Minimum Lease Payments	<u>\$ 1,866,600</u>

The carrying values of the leased assets of LP&L as of September 30, 2010 are as follows:

	Gross Value	Accumulated Depreciation	Net Book Value
LP&L Capital Leased Assets	\$ 5,082,514	\$ 1,428,723	\$ 3,653,791

Note 10: Long-Term Liabilities (continued)

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2010 and 2009 are as follows:

Fiscal Year 2010	Balance 9/30/2009	Additions	Deletions	Balance 9/30/2010	Due in one year
LP&L activities:					
General Obligation Bonds	\$67,425,934	\$6,222,610	\$3,618,846	\$70,029,698	\$3,898,562
Revenue Bonds	14,415,009	-	1,683,498	12,731,511	8,445,000
Capital Leases	2,975,882	-	1,109,282	1,866,600	999,376
Compensated Absences	2,566,369	1,452,998	1,282,114	2,737,253	1,342,413
Rebatable Arbitrage	38,455	-	18,027	20,428	-
Other Post Employment Benefits	943,392	848,543	-	1,791,935	-
Total LP&L activities	88,365,041	\$8,524,151	\$7,711,767	\$89,177,425	\$14,685,351

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	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

Proceeds from the sale of certificates are used for the purpose of paying contractual obligations 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.

In February 2010, the City issued \$48,955,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2010. The net proceeds to LP&L were \$5,968,440.70.

In March 2009, the City issued \$58,705,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2009. The net proceeds to LP&L were \$6,936,647.

Note 11: Risk Management

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, which are based on costs.

Effective on October 1, 2009 the City purchased worker's compensation coverage from Texas Political Subdivisions Joint Self-Insurance Fund (TPS). TPS operates as a self-insurance pool offering coverage to municipalities and other political subdivisions in accordance with the terms of interlocal agreements among members. The City obtains worker's compensation coverage through a guaranteed-cost plan. Guaranteed-cost members combine their contributions to cover pooled losses and expenses. As required by interlocal agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the agreement so that members will not have joint and several liabilities beyond their required contribution. 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 City's responsibility.

The City's self-insurance liability program is funded on a cash flow basis, which means that the servicing contractor processes, adjusts and pays claims from a deposit account provided by the City. The City accounts for the liability program by charging premiums to replenish funds based upon losses, administrative fees, premiums and reserve requirements. In order to control the risks associated with liability claims, the City purchases excess liability coverage with an \$18 million annual aggregate limit and is subject to a \$500,000 deductible per claim.

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 funds based upon estimated premiums for the upcoming year.

Other small insurance policies, such as surety bond coverage and miscellaneous floaters, are also accounted for in the Risk Management Fund. Funds are charged based on premium amounts and administrative charges. Settlements in the current year and preceding two years have not exceeded insurance coverage. The City accounts for all insurance activity in the Internal Service Funds.

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 City's Health Benefits Fund. Revenue for the health insurance program is 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 \$350,000 per covered individual annually with an aggregate cap of \$24,945,725. The insurance vendor based on medical trend, claims history, and utilization determines the aggregate deductible. The actuarially determined calculation of the claim liability is \$1.42 million at September 30, 2010 for all health insurances including medical, prescription drugs and dental which is recorded as an accrued liability in the City's Statement of Net Assets. The City charges LP&L for health insurance, and LP&L reimburses the City through direct charges.

The City also 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 policy, voluntary life and personal accident insurance.

Note 13: 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, 2010. LP&L Plant 1 site's remaining expected liability is \$13,702. LP&L Cooke fuel storage tanks' expected remaining liability is \$320,000.

Note 14: Subsequent Events

Debt Issuance

On October 20, 2010, LP&L issued Electric Light and Power System Revenue Bonds, Series 2010. The Bonds were the first issuance of electric light and power revenue debt since 2002. The Bonds were issued for the purpose of (i) financing the construction of capital improvements to the System, (ii) acquiring the Lubbock distribution system of SPS, and (iii) paying costs of issuance of the Bonds. The \$87,000,000 total purchase price of the SPS assets were funded with \$67,000,000 of proceeds from the Bonds along with a \$20,000,000 equity contribution from LP&L. An additional \$6,000,000 for capital improvements was issued. The financing was timed to deliver bond proceeds for the SPS asset purchase closing on October 29th.

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*
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	10,154,758	177.4%
2009	38,313,304	62,993,150	60.8%	24,679,846	13,518,571	182.6%

*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: 2008, 14.98%; 2009, 13.34%; and 2010, 17.79%.

**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)
12/31/07	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
12/31/09	TMRS	215,364,273	354,093,030	138,728,757	60.8	75,989,719	182.6
09/30/08	OPEB	-	81,918,738	81,918,378	-	88,185,412	92.9
09/30/09	OPEB	-	126,167,945	126,167,945	-	95,693,148	131.8

*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 approved the following changes to actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2008:

- Salary scale assumption be applied immediately instead of a one year delay.
- Explicitly recognize the cost-of-living adjustment (COLA) associated with the annuitization of the Employee Saving Fund (ESF) balances at retirement and accounting for occurrence of partial lump sum distributions.
- Set Municipality Accumulation Fund (MAF) discount rate at 7.5% to reflect the expectation of a reserving policy for the TMRS Fund.

A summary of actuarial assumptions and definitions can be found in the December 31, 2008 TMRS Comprehensive Annual Financial Report (CAFR). There have been no changes to the assumptions since the prior valuation.