



**LUBBOCK**  
**POWER & LIGHT**

Your Home Owned Advantage

**Annual Financial Report**

**September 30, 2011 and 2010**

**(With Independent Auditor's Report Thereon)**



**ELECTRIC UTILITY  
BOARD**  
(CURRENT)

Mike Davis, Chairman  
Gail Kring  
Virgil Johnson  
Emilio Abeyta  
Glen Robertson  
Marc McDougal  
Carroll McDonald  
George Carpenter  
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Tom Martin, Mayor Ex-  
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**PRINCIPAL OFFICIALS:**

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**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

## LUBBOCK POWER AND LIGHT Annual Report 2011



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, 2011 and 2010**

Lubbock Power and Light (LP&L) is pleased to present its Annual Financial Report for the fiscal years ended September 30, 2011 and 2010. 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 ordinances.

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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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, LLP*

March 13, 2012



**LUBBOCK**  
POWER & LIGHT

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, 2011 and 2010. 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 99,660 and 75,144 meters at September 30, 2011 and 2010, respectively. The 2011 meter increase of 32.6% was primarily due to the Xcel asset purchase in October 2010. The meter base totaled 74,930 at September 30, 2009, which was an increase of 0.3% from 2009 to 2010.
- Operating revenues for the years ending September 30, 2011 and 2010 were \$201,459,258 and \$143,222,344 respectively. The increase in 2011 was substantially due to the Xcel asset purchase, which netted 23,921 meters. The increase in revenues in 2010 was primarily due to increased fuel related revenues.
- Operating expenses for the years ending September 30, 2011 and 2010 were \$182,998,462 and \$123,734,984, respectively. The 2011 increase was due to the additional energy needed to supply the Xcel consumers added to the LP&L system, increased depreciation expense, and the extremely hot summer as evidenced by the nearly 50% increase in the Average Daily Consumption which went from 4,736,004 kWh in 2010 to 7,089,091 kWh in 2011. The 2010 increase from 2009 expenses was primarily due to higher fuel related energy costs.
- Net assets for the years ended September 30, 2011 and 2010 were \$170,555,076 and \$169,213,696, respectively, of which \$70,474,667 and \$87,412,798 were available to meet LP&L's ongoing obligations. Net assets for the year ended September 30, 2009 were \$160,247,566, of which \$79,790,811 were available to meet LP&L's ongoing obligations.
- LP&L's increase in capital assets of \$75,895,427, a 49.5% increase, is mostly due to additions to the infrastructure acquired in the Xcel asset purchase agreement.

## **Financial Analysis**

The following selected condensed financial statements for LP&L provide key financial data as of and for the years ended September 30, 2011, 2010 and 2009.

<b><u>Condensed Statements of Net Assets</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Current assets	\$ 94,251,548	\$ 107,465,159	\$94,584,980
Capital assets, net	229,230,533	153,335,106	154,986,350
Noncurrent investments	14,177,135	13,093,601	10,287,230
Goodwill	2,391,000	0	0
Deferred charges	<u>2,411,110</u>	<u>2,544,443</u>	<u>2,677,777</u>
Total assets	<u>342,461,326</u>	<u>276,438,309</u>	<u>262,536,337</u>
Current liabilities	34,150,752	31,566,842	21,107,070
Noncurrent liabilities	<u>137,755,498</u>	<u>75,657,771</u>	<u>81,181,701</u>
Total liabilities	<u>171,906,250</u>	<u>107,224,613</u>	<u>102,288,771</u>
Net assets:			
Invested in capital assets, net of related debt	89,040,422	75,923,264	74,348,891
Restricted	11,039,987	5,877,634	6,107,864
Unrestricted	<u>70,474,667</u>	<u>87,412,798</u>	<u>79,790,811</u>
Total net assets	<u>\$ 170,555,076</u>	<u>\$ 169,213,696</u>	<u>\$ 160,247,566</u>
<b><u>Condensed Statements of Activities</u></b>			
Program revenues			
Charges for services	\$ 201,459,258	\$ 143,222,344	\$ 132,731,430
General revenues			
Investment earnings	44,489	92,511	1,372,147
Other revenues	<u>1,135,413</u>	<u>542,031</u>	<u>700,727</u>
Total revenues	<u>202,639,160</u>	<u>143,856,886</u>	<u>134,804,304</u>
Program expenses (including interest)	<u>188,715,660</u>	<u>128,058,334</u>	<u>111,696,396</u>
Contributions	<u>0</u>	<u>342,353</u>	<u>0</u>
Excess before transfers	13,923,500	16,140,905	23,107,908
Transfers	<u>(12,582,120)</u>	<u>(7,174,775)</u>	<u>(4,265,506)</u>
Change in net assets	1,341,380	8,966,130	18,842,402
Net assets, beginning of year	<u>169,213,696</u>	<u>160,247,566</u>	<u>141,405,164</u>
Net assets, end of year	<u>\$170,555,076</u>	<u>\$169,213,696</u>	<u>\$160,247,566</u>

## **Long-Term Debt**

In 2011, LP&L issued debt via the City of Lubbock Electric Light and Power System Revenue Bonds, Series 2010 dated 10/20/2010. The Bonds were issued for \$73,295,000 and were used entirely for LP&L's expansion purposes which included the purchase of the Lubbock Xcel distribution system. The debt matures serially through 2020. The proceeds from the sale of these bonds not utilized in the Xcel asset purchase agreement are restricted for debt reserves and the construction of distribution, transmission, and production facilities.

In April 2011, the City issued \$16,320,000 General Obligation Refunding Bonds, Series 2011 (Bonds). The bond proceeds were used to refund a portion of the City's outstanding indebtedness for the purpose of achieving debt service savings. LP&L's portion of the debt refunding was \$1,970,000.

In 2010, LP&L issued debt via the City of Lubbock Tax & Waterworks System Surplus Revenue CO, Series 2010A dated 01/21/2010. 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.



### **Capital Assets**

For FY 2010, electric service in the City was provided by LP&L, Xcel Energy, and South Plains Electric Cooperative where LP&L had 75,975 meters and Xcel had approximately 24,000 meters. On November 12, 2009 LP&L and Xcel Energy reached an agreement that allowed LP&L to purchase Xcel Energy's electric distribution system within the City. The purchase of the assets was finalized on October 29, 2010. LP&L then became the electric provider to all of Xcel Energy's Lubbock retail electric customers that were served via the purchased assets. The purchase included land, substations, easements, distribution lines and poles, transformers, meters and other miscellaneous infrastructure.

As of September 30, 2011, LP&L had 99,660 meters, an average daily consumption of 7,089,091 kWh, 35 substations, 2,442 miles of distribution lines, and approximately 85 miles of transmission lines. The table below shows LP&L's expansion from year to year:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Number of meters	99,660	75,975	74,930
Average daily consumption (kWh)	7,089,091	4,736,004	4,516,842
Number of sub-stations	35	14	14
Miles of distribution lines	2,442	1,062	1,054
Miles of transmission lines	85	85	85

### **Budgetary Highlights**

The primary variances between the original budget and actual expenditures affecting Net Assets for the fiscal years 2011 was the addition of 23,921 meters acquired in the Xcel asset purchase agreement and in 2010 was the fluctuation in fuel costs. Both revenues and expenses were affected by the changes in fuel costs.

In 2011, purchased power costs exceeded the budget by over \$8.3 million because of the record number of 100 degree days. Additionally, the metered electric sales exceeded expectations by over \$8.3 million.

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.

### **General Trends and Significant 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 Xcel Energy located in Lubbock, and (ii) financing the construction of capital improvements for LP&L. The purchase price of \$87,754,858 for the assets was funded with \$67,000,000 from the bond proceeds and \$20,754,858 in LP&L operating cash. The purchase transaction was finalized October 29, 2010.

In July of 2011, LP&L experienced a summer peak load of 598.4 MW. This represented the highest electrical demand for one day in LP&L's history. LP&L also set a winter peak load of 465.9 MW, February of 2011. In comparison, the summer peak in 2010 was 391.5 MW in August of 2010 and the winter peak was 293.8 MW in December of 2009. The peaks were primarily the result of expansion and of weather extremes experienced during the 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 in the following:

**Civilian Labor Force (C.L.F.) Estimates for U.S., Texas and Lubbock  
Metropolitan Statistical Areas**

Not Seasonally Adjusted (In Thousands)

Geographic Area	October 2011				October 2010			
	C.L.F.	Emp.	Unemp.	%Rate	C.L.F.	Emp.	Unemp.	%Rate
U.S.	154,088.0	140,987.0	13,102.0	8.5	153,652.0	139,749.0	13,903.0	9.0
Texas	12,367.0	11,378.1	988.9	8.0	12,172.0	11,205.1	966.9	7.9
Lubbock	150.5	141.4	9.1	6.1	146.8	138.0	8.8	6.0

Key economic factors that played a role in the operations of 2011 and will play a role in operations for 2012 as reported by the Department of Energy (DOE) are as follows:

- ❖ **U.S. Electricity Consumption.** The U.S. Energy Information Administration (EIA) expects a 0.3 percent increase in total annual consumption of electricity across all sectors during calendar year 2011 and a 0.6 decrease in 2012 because 2012 is anticipated to be cooler than 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 average U.S. residential electricity prices to increase by 1.8% in calendar year 2011 and by 0.6 % in 2012.
- ❖ **U.S. Natural Gas Prices.** Natural gas working inventories have reached more than 3.8 trillion cubic feet (Tcf), which is about one percent lower than last year's level for the underground storage quantity at the end of October. The projected average Henry Hub natural gas spot price was \$4.09 per million Btu (MMBtu) for 2011, a \$0.30-per-MMBtu lower than the calendar year 2010 average. EIA expects the Henry Hub spot price will average \$4.13 per MMBtu in 2012.
- ❖ **U.S. Coal Consumption.** EIA forecasts that coal consumption in the electric power sector will decline by 1.6 percent in calendar year 2011, primarily the result of growth in generation from natural gas, hydropower, and renewable other than hydropower. Forecasted increases in generation from natural gas, nuclear and non-hydro renewables, in addition with lower electricity consumption, contribute to an additional 4.6 percent decline in electric power sector coal consumption in 2012.
- ❖ **U.S. Electricity Retail Prices.** Projected for calendar years 2011 and 2012 is a modest growth in retail electricity prices because the cost of coal delivered to electric generators is expected to increase by 6.4 percent during 2011, while the delivered cost of natural gas declines. The EIA expects the net effect should be that U.S. residential electricity prices to increase by 1.7 percent in calendar year 2011 and by 1.2 percent in 2012.

**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, 2011 and 2010**

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
Current assets:		
Pooled cash and cash equivalents	\$ 6,733,193	\$ 126,949
Investments	63,937,829	89,653,972
Receivables, net	23,335,246	17,437,173
Interest receivable	11,945	24,350
Prepaid expenses	25,000	-
Inventories	208,335	222,715
Total current assets	<u>94,251,548</u>	<u>107,465,159</u>
Noncurrent assets:		
Restricted investments	14,177,135	13,093,601
Goodwill	2,391,000	-
Deferred charges	2,411,110	2,544,443
	<u>18,979,245</u>	<u>15,638,044</u>
Capital assets:		
Land	16,471,824	1,092,472
Construction in progress	9,067,641	9,586,902
Buildings	8,005,610	8,030,074
Improvements other than buildings	285,131,087	214,858,424
Machinery and equipment	64,033,540	57,651,799
Less accumulated depreciation	(153,479,169)	(137,884,565)
Total capital assets	<u>229,230,533</u>	<u>153,335,106</u>
Total noncurrent assets	<u>248,209,778</u>	<u>168,973,150</u>
 Total Assets	 <u>\$ 342,461,326</u>	 <u>\$ 276,438,309</u>

**Lubbock Power and Light**  
**An Enterprise Fund of the City of Lubbock**  
**Statements of Net Assets**  
**September 30, 2011 and 2010**

<b>LIABILITIES</b>	<u>2011</u>	<u>2010</u>
Current liabilities:		
Accounts payable	\$ 870,525	\$ 936,901
Accrued liabilities	1,263,217	1,750,221
Accrued interest payable	2,168,721	1,100,316
Due to other funds	11,941,774	8,567,265
Customer deposits	5,077,019	4,526,788
Compensated absences	1,460,583	1,342,413
Leases payable	659,153	999,376
Bonds payable	10,709,760	12,343,562
Total current liabilities	<u>34,150,752</u>	<u>31,566,842</u>
Noncurrent liabilities:		
Rebatable arbitrage	-	20,428
Compensated absences	1,264,585	1,394,840
Post employment benefits	2,548,040	1,791,935
Net pension obligation	1,984,527	1,165,697
Leases payable	208,070	867,224
Bonds payable	131,750,276	70,417,647
Total noncurrent liabilities	<u>137,755,498</u>	<u>75,657,771</u>
Total Liabilities	<u>171,906,250</u>	<u>107,224,613</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	89,040,422	75,923,264
Restricted for:		
Debt Service	11,039,987	5,877,634
Unrestricted	<u>70,474,667</u>	<u>87,412,798</u>
Total Net Assets	<u>\$ 170,555,076</u>	<u>\$ 169,213,696</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, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 202,584,345	\$ 143,894,317
Provision for bad debts	(1,125,087)	(671,973)
Charges for services (net)	<u>201,459,258</u>	<u>143,222,344</u>
Total Operating Revenues	<u>201,459,258</u>	<u>143,222,344</u>
<b>OPERATING EXPENSES</b>		
Personal Services	16,204,193	15,157,181
Supplies	1,452,099	1,116,411
Maintenance	3,773,873	2,775,986
Purchase of fuel and power	133,813,410	88,464,687
Other services and charges	7,581,748	4,461,060
Depreciation and amortization	<u>20,173,139</u>	<u>11,759,659</u>
Total Operating Expenses	<u>182,998,462</u>	<u>123,734,984</u>
Operating income	<u>18,460,796</u>	<u>19,487,360</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	44,489	92,511
Disposition of assets	57,668	(645,380)
Miscellaneous	1,061,349	542,031
IRS Build America Bond Subsidy	16,396	-
Interest expense on bonds	<u>(5,717,198)</u>	<u>(3,677,970)</u>
Total non-operating revenues (expenses)	<u>(4,537,296)</u>	<u>(3,688,808)</u>
Income before contributions and transfers	13,923,500	15,798,552
Capital contributions	-	342,353
Transfers out	<u>(12,582,120)</u>	<u>(7,174,775)</u>
Change in net assets	1,341,380	8,966,130
Total net assets - beginning of year	<u>169,213,696</u>	<u>160,247,566</u>
Total net assets - ending	<u>\$ 170,555,076</u>	<u>\$ 169,213,696</u>

**Lubbock Power and Light**  
**An Enterprise Fund of the City of Lubbock**  
**Statements of Cash Flows**  
**For The Years Ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 195,561,185	\$ 140,427,236
Payments to suppliers	(141,697,540)	(91,574,681)
Payments to employees	(16,204,193)	(15,157,181)
Other receipts	1,077,745	542,031
Net cash provided by operating activities	<u>38,737,197</u>	<u>34,237,405</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Transfers out to other funds	<u>(12,582,120)</u>	<u>(7,174,775)</u>
Net cash used by noncapital and related financing activities	<u>(12,582,120)</u>	<u>(7,174,775)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(95,850,238)	(10,328,939)
Sale of capital assets	238,654	50,831
Principal paid on capital leases	(999,377)	(1,109,282)
Principal paid on bonds	(21,903,562)	(5,333,846)
Issuance of bonds	82,461,384	6,294,380
Bond issuance costs	(133,867)	(30,828)
Interest paid on bonds and capital leases	(5,373,921)	(3,767,293)
Rebatable arbitrage	<u>(20,428)</u>	<u>(27,467)</u>
Net cash used for capital and related financing activities	<u>(41,581,355)</u>	<u>(14,252,444)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	111,284,812	-
Purchase of investments	(86,652,203)	(13,373,164)
Purchase of goodwill	(2,656,981)	-
Interest earnings on cash and investments	56,894	279,475
Net cash provided (used) for investing activities	<u>22,032,522</u>	<u>(13,093,689)</u>
Net increase (decrease) in cash and cash equivalents	6,606,244	(283,503)
Cash and cash equivalents - beginning of year	126,949	410,452
Cash and cash equivalents - end of year	<u>\$ 6,733,193</u>	<u>\$ 126,949</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	18,460,796	19,487,360
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	20,173,139	11,759,659
Other income	1,077,745	542,031
Change in current assets and liabilities:		
Accounts receivable	(5,898,073)	(2,795,108)
Inventory	14,380	11,255
Prepaid expenses	(25,000)	-
Accounts payable	(66,376)	116,516
Due to others	3,374,509	2,922,301
Other accrued expenses	(487,004)	(9,199)
Customer deposits	550,231	460,695
Compensated absences	1,562,850	1,741,895
Net cash provided by operating activities	<u>\$ 38,737,197</u>	<u>\$ 34,237,405</u>
<b>Supplemental cash flow information:</b>		
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, 2011 and 2010**

**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 had two competitors. LP&L's competitors were Xcel Energy and South Plains Electric Cooperative, Inc. On October 29, 2010, LP&L purchased Xcel's Lubbock distribution assets for \$87,754,858.

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 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 \$225,618 net of interest earned during the fiscal year 2011 and \$320,841 net of interest earned during the fiscal year 2010.

## **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* - Restricted net assets are only used for their intended purpose. For the majority of projects funded by tax exempt debt proceeds, the debt proceeds are used first, followed by unrestricted resources.
- ❖ *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, 2011, GASB issued no pronouncements applicable to LP&L financial reporting.

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” effective for periods beginning after June 15, 2009. The financial effect for implementing the statement was an increase of capital assets of \$519,580 as of FY 2010.

## 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, 2011, City 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	16,106,049
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the City's name	-
Total	<u>\$16,856,049</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 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. On September 30, 2011, 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 AA+ 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, 2011, LP&L’s investments constituted the following percentages of total investments: State Investment Pools – 95.11%, FHLMC – 0.87%, FFCB – 0.87%, FNMA – 3.07%, and Money Markets – 0.08%.

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, 2011 and 2010, LP&L had the following investments and maturities:

Type	30-Sep-11			30-Sep-10		
	Fair Value	Maturities in Years		Fair Value	Maturities in Years	
		Less Than 1	1-5		Less Than 1	1-5
Repurchase agreements	\$ 0	\$ 0	\$ 0	\$ 198,781	\$ 198,781	\$ 0
Money market mutual funds	67,833	67,833	0	0	0	0
Federal Home Loan Banks	0	0	0	2,674,800	891,600	1,783,200
Federal Home Loan Mortgage Corporation (FHLMC)	740,555	0	740,555	892,045	0	892,045
Federal National Mortgage Association (FNMA)	2,602,828	748,430	1,854,398	2,681,858	0	2,681,858
Federal Farm Credit Bank	742,314	0	742,314	890,785	890,785	0
State Investment Pools *	80,694,627	80,694,627	0	95,536,253	95,536,253	0
	<u>\$ 84,848,157</u>	<u>\$ 81,510,890</u>	<u>\$ 3,337,267</u>	<u>\$ 102,874,522</u>	<u>\$ 97,517,419</u>	<u>\$ 5,357,103</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, 2011 LP&L had zero dollars in internal financing.

Transfers out of \$12,582,120 from LP&L to other City funds are the result of 1) General Fund indirect cost allocations of \$750,979; 2) payments to WTMPA for management and administration of \$350,852; 3) City franchise fee equivalents of \$9,498,867; 4) Payment in lieu of taxes of \$1,981,422.



## Note 7: Capital Assets

### Capital asset activity for the year ended September 30, 2011 follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets not being depreciated:				
Land	\$ 1,092,472	\$ 15,379,352	\$ -	\$ 16,471,824
Construction in Progress	9,586,902	10,694,165	11,213,426	9,067,641
<b>Total Capital Assets not being depreciated</b>	<b>10,679,374</b>	<b>26,073,517</b>	<b>11,213,426</b>	<b>25,539,465</b>
Capital Assets being depreciated:				
Buildings	8,030,074	-	24,464	8,005,610
Improvements Other than Buildings	214,858,424	74,315,894	4,043,231	285,131,087
Machinery & Equipment	57,651,799	6,674,253	292,512	64,033,540
Total Capital Assets being depreciated	280,540,297	80,990,147	4,360,207	357,170,237
Less Accumulated depreciation for:				
Buildings	3,755,441	191,470	5,984	3,940,927
Improvements Other than Buildings	105,213,669	15,648,542	3,880,722	116,981,489
Machinery & Equipment	28,915,455	3,933,813	292,515	32,556,753
Total Accumulated Depreciation	137,884,565	19,773,825	4,179,221	153,479,169
<b>Capital Assets being depreciated, Net</b>	<b>142,655,732</b>	<b>61,216,322</b>	<b>180,986</b>	<b>203,691,068</b>
Capital Assets, Net	\$ 153,335,106	\$ 87,289,839	\$ 11,394,412	\$ 229,230,533

### 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
<b>Total Capital Assets not being depreciated</b>	<b>16,516,938</b>	<b>9,566,389</b>	<b>15,403,953</b>	<b>10,679,374</b>
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
<b>Capital Assets being depreciated, Net</b>	<b>138,469,412</b>	<b>4,882,531</b>	<b>696,211</b>	<b>142,655,732</b>
Capital Assets, Net	\$ 154,986,350	\$ 14,448,920	\$ 16,100,164	\$ 153,335,106

**Note 7: 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, 2011**

<b>Original Commitments</b>	<b>Spent-to-Date</b>	<b>Remaining Commitments</b>
\$52,029,935	\$32,403,530	\$19,626,405

**Note 8: 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](http://www.TMRS.com).

The adopted plan provisions were as follows:

	<u>Plan Year 2011</u>	<u>Plan Year 2010</u>
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 8: 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, 2010 valuation is effective for rates beginning January 2012). The annual pension cost and net pension obligation are as follows:

Annual Required Contribution	\$2,422,420
Interest on Net Pension Obligation	63,065
Adjustments to the ARC	<u>52,273</u>
Annual Pension Cost (APC)	2,537,758
Contributions Made	<u>(1,718,928)</u>
Increase in net pension obligation	818,830
Net Pension Obligation, beginning of year	<u>1,165,697</u>
Net Pension Obligation, end of year	<u><u>\$1,984,527</u></u>

Actuarial Assumptions

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2010 actuarial valuations.

<u>Valuation Date</u>	<u>12/31/08</u>	<u>12/31/09</u>	<u>12/31/10 – prior to restructuring</u>	<u>12/31/10 - Restructured</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	29 years; closed period	28 years; closed period	27.1 years; closed period	27.0 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-yr Smoothed Mkt	10-yr Smoothed Mkt
Actuarial Assumptions: Investment Rate of Return	7.5%	7.5%	7.5%	7.5%
Projected Salary Increase	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.0%	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%	2.1%



**Note 8: Retirement Plan (continued)**

**Three-Year Trend Information**

<b>As of September 30</b>	<b>Annual Pension Cost</b>	<b>Percentage Of APC Made</b>	<b>Net Pension Obligation</b>
2009	\$ 2,566,097	82.7	\$ 443,229
2010	3,183,134	77.3	1,165,697
2011	2,537,758	67.7	1,984,527

Funded Status and Funding Progress

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including effects on TMRS city rates and funding ratios, please see the December 31, 2010 Comprehensive Annual Report (CAFR) of TMRS.

As of December 31, 2010 the most recent actuarial valuation date, the plan was 61.3 percent funded under the original fund structure and 78.9 percent funded under the new fund structure. The actuarial accrued liability for benefits was \$365.3 million under the original fund structure and \$505.6 million under the new fund structure, and the actuarial value of assets was \$224.0 million under the original fund structure and \$399.1 million under the new fund structure, resulting in an unfunded actuarial accrued liability (UAAL) of \$141.3 million under the original fund structure and \$106.5 million under the new fund structure. The covered payroll (annual payroll of active employees covered by the plan) was \$77.5 million, and the ratio of the UAAL to the covered payroll was 182.3 percent under the original fund structure and 137.4 percent under the new fund structure.

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 9: 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 LP&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.

**Note 9: OPEB (continued)**

*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.

*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	\$1,355,120
Interest on net OPEB obligation	84,369
Adjustment to the ARC	<u>(78,167)</u>
Annual OPEB Cost	1,361,322
Total annual employer contribution (pay-as-you-go)	<u>(605,217)</u>
Increase in net OPEB obligation	756,105
Net OPEB obligation – beginning of year	<u>1,791,935</u>
Net OPEB obligation – end of year	<u>\$2,548,040</u>

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

Normal Cost	\$ 676,632
Amortization of transition obligation	<u>678,488</u>
ARC	<u>\$ 1,355,120</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 2011 is as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
09/30/2009	\$ 778,687	45.5%	\$ 943,392
09/30/2010	1,260,656	34.7%	1,791,935
09/30/2011	1,361,322	44.5%	2,548,040

**Note 9: OPEB (continued)**

*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.

*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 10: 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,

## Note 10: Deferred Compensation (continued)

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 11: 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:

<b>Average Interest Rate</b>	<b>Issue Date</b>	<b>Final Maturity Date</b>	<b>Amount Issued</b>	<b>Balance Outstanding 9-30-11*</b>	<b>Balance Outstanding 9-30-10**</b>
4.60	08-15-03	04-15-23	\$ 8,900,000	\$ 6,030,000	\$ 6,410,000
4.60	08-15-03	04-15-23	13,270,000	1,195,000	3,745,000
3.89	02-15-05	04-15-25	23,055,000	13,065,000	14,705,000
4.26	08-15-05	02-15-25	2,670,000	2,095,000	2,200,000
4.58	04-15-06	02-15-26	6,077,282	5,152,856	5,377,940
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	11,476,034	11,932,671
4.42	04-15-08	08-15-27	6,498,295	5,952,597	6,169,103
4.36	03-01-09	08-15-29	6,936,647	6,607,506	6,834,913
5.10	02-15-10	02-15-30	5,410,997	5,328,068	5,410,997
5.10	02-15-10	02-15-30	557,444	557,444	557,444
3.85	03-15-11	02-15-22	1,970,000	1,970,000	0
<b>Total</b>			<b>\$94,357,323</b>	<b>\$65,264,505</b>	<b>\$69,178,068</b>

\* Balance outstanding excludes (\$1,265,263) of discounts and deferred losses and \$2,083,884 of premiums.

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

At September 30, 2011, management 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

<b>Interest Rate (%)</b>	<b>Issue Date</b>	<b>Final Maturity Date</b>	<b>Amount Issued</b>	<b>Balance Outstanding 9-30-11*</b>	<b>Balance Outstanding 9-30-10**</b>
4.25 to 6.25	1-01-98	4-15-18	\$ 9,170,000	\$ 0	\$ 3,680,000
3.10 to 5.00	1-15-99	4-15-19	14,975,000	0	4,305,000
4.00 to 5.25	7-01-01	4-15-21	9,200,000	4,600,000	5,060,000
3.50 to 5.00	10-15-10	4-15-20	73,295,000	65,720,000	0
<b>Total</b>			<b>\$ 106,640,000</b>	<b>\$70,320,000</b>	<b>\$13,045,000</b>

\* Balance outstanding excludes (\$330,611) of discounts and issuance costs and \$6,387,521 of premiums.

\*\* Balance outstanding excludes (\$313,489) of discounts and issuance costs on bonds sold.

**Note 11: Long-Term Liabilities (continued)**

The annual requirements to amortize LP&L's outstanding debt as of September 30, 2011 is as follows:

Fiscal Year	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2011-12	\$ 4,109,760	\$ 3,091,805	\$ 6,600,000	\$ 3,176,315
2012-13	4,216,725	2,914,591	6,845,000	2,909,440
2013-14	4,337,120	2,706,291	7,100,000	2,632,190
2014-15	4,470,645	2,501,314	7,365,000	2,344,050
2015-16	4,603,672	2,292,191	7,660,000	2,022,850
2017-21	21,054,739	8,111,560	34,750,000	4,234,431
2022-26	17,287,895	3,259,348	-	-
2027-32	5,183,949	344,639	-	-
Totals	<u>\$ 65,264,505</u>	<u>\$ 25,221,739</u>	<u>\$ 70,320,000</u>	<u>\$ 17,319,276</u>

The annual requirements for capital leases as of September 30, 2011, including interest payments of \$27,459 are as follows:

Fiscal Year	Capital Lease Minimum Payment
2011-12	\$ 680,148
2012-13	184,829
2013-14	5,941
2014-15	5,941
2015-2016	5,941
2016-2018	11,882
Less:	
Interest	<u>(27,459)</u>
Net Present Value of Minimum Lease Payments	<u>\$ 867,223</u>

The carrying values of the leased assets of LP&L as of September 30, 2011 are as follows:

	Gross Value	Accumulated Depreciation	Net Book Value
LP&L Capital Leased Assets	\$ 5,082,514	\$ 2,295,513	\$ 2,787,001

**Note 11: Long-Term Liabilities (continued)**

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2011 and 2010 are as follows:

Fiscal Year 2011	Balance 9/30/2010	Additions	Deletions	Balance 9/30/2011	Due in one year
<b>LP&amp;L activities:</b>					
General Obligation Bonds	\$70,029,698	\$ 1,952,191	\$5,898,763	\$66,083,126	\$4,109,760
Revenue Bonds	12,731,511	73,295,000	9,649,601	76,376,910	6,600,000
Capital Leases	1,866,600	-	999,377	867,223	659,153
Compensated Absences	2,737,253	1,330,328	1,342,413	2,725,168	1,460,583
Rebatable Arbitrage	20,428	-	20,428	-	-
Other Post Employment Benefits	1,791,935	756,105	-	2,548,040	-
Net Pension Obligation	1,165,697	818,830	-	1,984,527	-
<b>Total LP&amp;L activities</b>	<b>\$90,343,122</b>	<b>\$78,152,454</b>	<b>\$17,910,582</b>	<b>\$150,584,994</b>	<b>\$12,829,496</b>

Fiscal Year 2010	Balance 9/30/2009	Additions	Deletions	Balance 9/30/2010	Due in one year
<b>LP&amp;L activities:</b>					
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	-
Net Pension Obligation	443,229	722,468	-	1,165,697	-
<b>Total LP&amp;L activities</b>	<b>\$88,808,270</b>	<b>\$9,246,619</b>	<b>\$7,711,767</b>	<b>\$90,343,122</b>	<b>\$14,685,351</b>

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 October 2010, the City issued \$73,295,000 Electric Light and Power System revenue Bonds, Series 2010. The bonds were issued for the purpose of financing the construction of capital improvements and acquiring the distribution system of Southwestern Public Service Company located in the City. The Bonds were issued at a premium of \$7,097,245 and incurred issuance costs of \$180,284.

In April 2011, the City issued \$16,320,000 General Obligation Refunding Bonds, Series 2011 (Bonds). The bond proceeds were used to refund a portion of the City's outstanding indebtedness for the purpose of achieving debt service savings. The bonds were issued at a premium of \$821,296 and incurred \$94,447 in issuance costs. The bonds refunded \$16,475,000 in outstanding debt. As a result of the refunding, the City decreased total debt service requirements by \$1,104,533, which resulted in an economic gain of \$891,872. LP&L's portion of the debt refunding was \$1,970,000.

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 \$5,968,441.

## **Note 12: 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 13: 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 \$25,049,970. The insurance vendor based on medical trend, claims history, and utilization determines the aggregate deductible. The actuarially determined calculation of the claim liability is \$1.58 million at September 30, 2011 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 14: Litigation**

LP&L is involved in various legal proceedings related to alleged damages and breach of contract cases. State law limits municipal liability for personal injury to \$250,000 per person/\$500,000 per occurrence and property damage to \$100,000 per claim. The following represents the significant litigation against the City that relates to LP&L at this time.

#### Republic Power Partners v. City of Lubbock and WTMPA

The City and WTMPA received a Demand for Payment letter from Republic Power Partners. Plaintiff is claiming damages as a result of an alleged breach of representations.

Depending on the date of the occurrence, insurance coverage, if available, contains either a \$250,000 or a \$500,000 self-insured retention. As of September 30, 2011, the City has \$2,206,676 reserved on general liability claims, as determined by an actuarial calculation.

### **Note 15: 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, 2011. LP&L Plant 1 site's remaining expected liability is \$10,000. LP&L Cooke fuel storage tanks' expected remaining liability is \$249,000.



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*
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
2010 <sup>2</sup>	41,538,197	67,740,039	61.3%	26,201,842	14,372,108	182.3
2010 <sup>3</sup>	73,989,936	93,734,398	78.9%	19,744,463	14,372,108	137.4

\*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; 2009, 13.34%; 2010, 17.79%; and 2011, 18.54%.

\*\*Based on Fiscal Years converted to Calendar Years.

**CITYWIDE TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS);  
OTHER POSTEMPLOYMENT BENEFIT PLAN (OPEB)<sup>1</sup>**

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)
12/31/08	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
12/31/10 <sup>2</sup>	TMRS	224,046,370	365,372,379	141,326,009	61.3	77,519,460	182.3
12/31/10 <sup>3</sup>	TMRS	399,082,717	505,579,279	106,496,562	78.9	77,519,460	137.4
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

<sup>1</sup>Health/Dental Care Insurance Plan

<sup>2</sup>Actuarial valuation performed under the original fund structure

<sup>3</sup>Actuarial valuation performed under the new fund structure

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed as if restructuring had

### **Required Supplementary Information (continued)**

occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects of TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The assumed City contribution rate was increased to 22.83 percent of compensation, the rate at which the City of Lubbock is contributing to the plan for 2011. The assumed city contribution rate for the 2008 valuation was 20.77 percent of compensation.