



LUBBOCK
POWER & LIGHT

Your Home Owned Advantage

Annual Financial Report

September 30, 2012 and 2011

(With Independent Auditor's Report Thereon)

LUBBOCK POWER AND LIGHT Annual Report 2012



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

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**Lubbock Power and Light
City Electric System
Introduction
For the Years Ended September 30, 2012 and 2011**

Lubbock Power and Light (LP&L) is pleased to present its Annual Financial Report for the fiscal years ended September 30, 2012 and 2011. 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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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.

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

BKD, LLP

April 18, 2013

Lubbock Power and Light Management's Discussion and Analysis

For the Years Ended September 30, 2012 and 2011

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, 2012 and 2011. 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 100,544 and 99,660 meters at September 30, 2012 and 2011, respectively. The 2012 meter increase of 0.89% was modest because there was not significant growth in the City and LP&L no longer competes for meters in most of its certificated area. The 2011 meters increased from 2010's count of 75,975 by 32.6% which was due to the Xcel asset purchase in October 2010.
- Operating revenues for the years ending September 30, 2012 and 2011 were \$189,208,522 and \$201,459,258, respectively. The decrease in 2012 was substantially due to the decline in fuel costs. Fuel costs are a pass through and if they decline then LP&L's costs decline; thus, its revenues. The increase in 2011 was substantially due to the Xcel asset purchase, which netted 23,921 meters.
- Operating expenses for the years ending September 30, 2012 and 2011 were \$175,753,932 and \$182,998,462, respectively. The 2012 decrease from 2011 expenses was primarily due to lower fuel related energy costs and other charges such as utility costs and advertising activities were significantly lower in 2012 than in 2011. Also, in 2011 there were significant consulting costs due to the Xcel acquisition that were not present in 2012. The 2011 increase from 2010's operating expenses of \$123,734,984 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.
- Net assets as of September 30, 2012 and 2011 were \$167,311,940 and \$170,555,076, respectively, of which \$50,696,382 and \$70,474,667 were available to meet LP&L's ongoing obligations. Net assets as of September 30, 2010 were \$169,213,696, of which \$87,412,798 were available to meet LP&L's ongoing obligations.
- LP&L's 2012 increase in capital assets of \$4,921,069 was a 2.15% increase, which was due to additions to the infrastructure acquired and constructed by LP&L in its normal course of business. LP&L's 2011 increase in capital assets of \$75,895,427, a 49.5% increase, is mostly due to additions to the infrastructure obtained in the Xcel asset purchase agreement.

Lubbock Power and Light Management's Discussion and Analysis

For the Years Ended September 30, 2012 and 2011

Financial Analysis

The following selected condensed financial statements for LP&L provide key financial data as of and for the years ended September 30, 2012, 2011 and 2010.

<u>Condensed Statements of Net Assets</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 78,492,055	\$ 94,251,548	\$ 107,465,159
Capital assets, net	234,151,602	229,230,533	153,335,106
Noncurrent investments	13,697,174	14,177,135	13,093,601
Goodwill	2,125,302	2,391,000	0
Deferred charges	<u>2,277,776</u>	<u>2,411,110</u>	<u>2,544,443</u>
Total assets	<u>330,743,909</u>	<u>342,461,326</u>	<u>276,438,309</u>
Current liabilities	41,273,267	34,150,752	31,566,842
Noncurrent liabilities	<u>122,158,702</u>	<u>137,755,498</u>	<u>75,657,771</u>
Total liabilities	<u>163,431,969</u>	<u>171,906,250</u>	<u>107,224,613</u>
Net assets:			
Invested in capital assets, net of related debt	105,432,338	89,040,422	75,923,264
Restricted	11,183,220	11,039,987	5,877,634
Unrestricted	<u>50,696,382</u>	<u>70,474,667</u>	<u>87,412,798</u>
Total net assets	<u>\$ 167,311,940</u>	<u>\$ 170,555,076</u>	<u>\$ 169,213,696</u>
<u>Condensed Statements of Revenues, Expenses and Changes in Net Assets</u>			
Program revenues			
Charges for services	\$ 189,208,522	\$ 201,459,258	\$ 143,222,344
General revenues			
Investment earnings	126,640	44,489	92,511
Other revenues	<u>715,795</u>	<u>1,135,413</u>	<u>542,031</u>
Total revenues	<u>190,050,957</u>	<u>202,639,160</u>	<u>143,856,886</u>
Program expenses (including interest)	<u>181,044,466</u>	<u>188,715,660</u>	<u>128,058,334</u>
Contributions	<u>46,434</u>	<u>0</u>	<u>342,353</u>
Excess before transfers	9,052,925	13,923,500	16,140,905
Transfers	<u>(12,296,061)</u>	<u>(12,582,120)</u>	<u>(7,174,775)</u>
Change in net assets	(3,243,136)	1,341,380	8,966,130
Net assets, beginning of year	<u>170,555,076</u>	<u>169,213,696</u>	<u>160,247,566</u>
Net assets, end of year	<u>\$ 167,311,940</u>	<u>\$ 170,555,076</u>	<u>\$ 169,213,696</u>

Long-Term Debt

There was no debt obligation issuance in Fiscal Year 2012.

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.

Lubbock Power and Light Management's Discussion and Analysis

For the Years Ended September 30, 2012 and 2011

Capital Assets

At September 30, 2012, LP&L had 100,544 meters, an average daily consumption of 7,089,327 kWh, 37 substations, 2,202 miles of distribution lines, and approximately 96 miles of transmission lines.

At September 30, 2011, LP&L had 99,660 meters, an average daily consumption of 7,089,091 kWh, 38 substations, 2,202 miles of distribution lines, and approximately 85 miles of transmission lines. The large increases in 2011 from 2010 are due to the acquisition of Xcel's Lubbock distribution system. The table below shows LP&L's expansion from year to year:

	2012	2011	2010
Number of meters	100,544	99,660	75,975
Average daily consumption (kWh)	7,089,327	7,089,091	4,736,004
Number of sub-stations	37	38	14
Miles of distribution lines	2,202	2,202	1,062
Miles of transmission lines	96	85	85

Budgetary Highlights

The primary variances between the original budget and actual expenditures affecting Net Assets for the fiscal year 2012 was the fluctuation in fuel costs which were greater than budgeted and turbine maintenance items. Both revenues and expenses were affected by the changes in fuel costs. Although fuel costs were less in FY12 than FY11, actual fuel costs were more than originally budgeted.

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.

On August 2, 2012, LP&L set its annual peak load of 592.2 MW's. In July of 2011, LP&L experienced a summer peak load of 598.4 MW. In comparison, the summer peak in 2010 was 391.5 MW in August of 2010. 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:

Lubbock Power and Light Management's Discussion and Analysis

For the Years Ended September 30, 2012 and 2011

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

Geographic Area	October 2012				October 2011			
	C.L.F.	Emp.	Unemp.	%Rate	C.L.F.	Emp.	Unemp.	%Rate
U.S.	155,641.0	143,384.0	12,258.0	7.9	154,088.0	140,987.0	13,102.0	8.5
Texas	12,671.5	11,879.1	792.4	6.3	12,367.0	11,378.1	988.9	8.0
Lubbock	148.2	140.9	7.3	4.9	150.5	141.4	9.1	6.1

Key economic factors that played a role in the operations of 2012 and will play a role in operations for 2013 as reported by the Department of Energy (DOE) are as follows:

- ❖ **U.S. Electricity Consumption.** Most regions of the United States experienced temperatures that were much warmer than normal during calendar year 2012, in both the winter and the summer. Based on the assumption that temperatures return closer to averages, the U.S. Energy Information Administration (EIA) expects residential electricity sales during the winter months of calendar year 2013 will be higher than calendar year 2012 while summer electricity sales will be lower. Overall, projected is an annual decline of 0.3 percent during calendar year 2013.
- ❖ **U.S. Electricity Retail Prices.** Infrastructure upgrades continue to cause residential electricity rates to increase because of rising material costs. However, lower fuel prices in recent years have kept growth in retail rates relatively modest. After an increase of 1.3 percent during calendar year 2012, EIA expects retail residential electricity prices will grow by 1.9 percent in calendar year 2013. LP&L did not have a rate increase in 2012.
- ❖ **U.S. Natural Gas Prices.** Natural gas working inventories were at record-high levels in early November 2012 and were at an estimated 3.5 trillion cubic feet (Tcf) at December 31, 2012, which were slightly above the level at the same time calendar year 2011. The Henry Hub natural gas spot price, averaged \$4.00 per million British thermal units (MMBtu) in calendar year 2011 and \$2.75 per million MMBtu in calendar year 2012. The EIA expects the Henry Hub natural gas spot price will average \$3.74 per MMBtu in calendar year 2013 and \$3.90 per MMBtu in calendar year 2014.
- ❖ **U.S. Coal Share of Generation.** EIA expects the coal share of total electricity generation to rise from 37.6 percent in calendar year 2012 to 39.0 percent in calendar year 2013 and 39.6 percent in calendar year 2014, as natural gas prices rise relative to coal prices. The forecast is dependent on natural gas prices along with the industry's response to future environmental regulations.
- ❖ **U.S. Electricity Mix.** EIA forecasts natural gas will account for 27.5 percent of total generation in 2014 and coal will account for 39.6 percent, both relatively unchanged from the projected 2013 fuel shares. LP&L is in the Southwest Power Pool (SPP) which in calendar year 2011 had a mix of 40% coal and 42% natural gas. (Nuclear, wind, solar, bio mass, hydro, petroleum, and other make up the remaining percentages.)

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, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Pooled cash and cash equivalents	\$ 9,210,713	\$ 6,733,193
Investments	47,918,384	63,937,829
Receivables, net	21,156,814	23,335,246
Interest receivable	10,473	11,945
Prepaid expenses	25,000	25,000
Inventories	170,671	208,335
Total current assets	<u>78,492,055</u>	<u>94,251,548</u>
Noncurrent assets:		
Restricted investments	13,697,174	14,177,135
Goodwill	2,125,302	2,391,000
Deferred charges	2,277,776	2,411,110
	<u>18,100,252</u>	<u>18,979,245</u>
Capital assets:		
Land	16,565,758	16,471,824
Construction in progress	13,498,536	9,067,641
Buildings	7,906,484	8,005,610
Improvements other than buildings	299,087,942	285,131,087
Machinery and equipment	67,525,391	64,033,540
Less accumulated depreciation	(170,432,509)	(153,479,169)
Total capital assets	<u>234,151,602</u>	<u>229,230,533</u>
Total noncurrent assets	<u>252,251,854</u>	<u>248,209,778</u>
 Total Assets	 <u>\$ 330,743,909</u>	 <u>\$ 342,461,326</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Net Assets
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 2,360,782	\$ 870,525
Accrued liabilities	1,098,347	1,263,217
Accrued interest payable	1,989,272	2,168,721
Due to other funds	11,959,563	11,941,774
Customer deposits	5,807,440	5,077,019
Compensated absences	1,585,416	1,460,583
Leases payable	180,722	659,153
Bonds payable	16,291,725	10,709,760
Total current liabilities	<u>41,273,267</u>	<u>34,150,752</u>
Noncurrent liabilities:		
Compensated absences	1,509,596	1,264,585
Post employment benefits	3,741,603	2,548,040
Net pension obligation	2,146,732	1,984,527
Leases payable	27,349	208,070
Bonds payable	114,733,422	131,750,276
Total noncurrent liabilities	<u>122,158,702</u>	<u>137,755,498</u>
Total Liabilities	<u>163,431,969</u>	<u>171,906,250</u>
NET ASSETS		
Invested in capital assets, net of related debt	105,432,338	89,040,422
Restricted for:		
Debt Service	11,183,220	11,039,987
Unrestricted	<u>50,696,382</u>	<u>70,474,667</u>
Total Net Assets	<u>\$ 167,311,940</u>	<u>\$ 170,555,076</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Charges for services	\$ 189,882,643	\$ 202,584,345
Provision for bad debts	(674,121)	(1,125,087)
Total Operating Revenues	<u>189,208,522</u>	<u>201,459,258</u>
OPERATING EXPENSES		
Personal services	17,668,284	16,204,193
Supplies	1,529,028	1,452,099
Maintenance	4,732,419	3,773,873
Purchase of fuel and power	125,922,551	133,813,410
Other services and charges	4,543,992	7,581,748
Depreciation and amortization	21,357,658	20,173,139
Total Operating Expenses	<u>175,753,932</u>	<u>182,998,462</u>
Operating income	<u>13,454,590</u>	<u>18,460,796</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	126,640	44,489
Disposition of assets	79,770	57,668
Miscellaneous	636,025	1,061,349
IRS Build America Bond Subsidy	-	16,396
Interest expense on bonds	(5,290,534)	(5,717,198)
Total non-operating revenues (expenses)	<u>(4,448,099)</u>	<u>(4,537,296)</u>
Income before contributions and transfers	9,006,491	13,923,500
Capital contributions	46,434	-
Transfers out	<u>(12,296,061)</u>	<u>(12,582,120)</u>
Change in net assets	(3,243,136)	1,341,380
Total net assets - beginning of year	<u>170,555,076</u>	<u>169,213,696</u>
Total net assets - ending	<u>\$ 167,311,940</u>	<u>\$ 170,555,076</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Cash Flows
For The Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 191,386,954	\$ 195,561,185
Payments to suppliers	(132,891,120)	(141,697,540)
Payments to employees	(17,668,284)	(16,204,193)
Other receipts	636,025	1,077,745
Net cash provided by operating activities	<u>41,463,575</u>	<u>38,737,197</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers out to other funds	<u>(12,296,061)</u>	<u>(12,582,120)</u>
Net cash used by noncapital and related financing activities	<u>(12,296,061)</u>	<u>(12,582,120)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(26,143,871)	(95,850,238)
Sale of capital assets	390,381	238,654
Principal paid on capital leases	(659,152)	(999,377)
Principal paid on bonds	(10,709,760)	(21,903,562)
Issuance of bonds	-	82,461,384
Bond issuance costs	-	(133,867)
Interest paid on bonds and capital leases	(6,195,112)	(5,373,921)
Rebatable arbitrage	-	(20,428)
Net cash used by capital and related financing activities	<u>(43,317,514)</u>	<u>(41,581,355)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	43,743,728	111,284,812
Purchase of investments	(27,244,322)	(86,652,203)
Purchase of goodwill	-	(2,656,981)
Interest earnings on cash and investments	128,114	56,894
Net cash provided by investing activities	<u>16,627,520</u>	<u>22,032,522</u>
Net increase in cash and cash equivalents	2,477,520	6,606,244
Cash and cash equivalents - beginning of year	6,733,193	126,949
Cash and cash equivalents - end of year	<u>9,210,713</u>	<u>\$ 6,733,193</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	13,454,590	18,460,796
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	21,357,658	20,173,139
Other income	636,025	1,077,745
Change in current assets and liabilities:		
Accounts receivable	2,178,432	(5,898,073)
Inventory	37,664	14,380
Prepaid expenses	-	(25,000)
Accounts payable	1,490,254	(66,376)
Due to others	17,789	3,374,509
Other accrued expenses	(164,870)	(487,004)
Customer deposits	730,421	550,231
Compensated absences	1,725,612	1,562,850
Net cash provided by operating activities	<u>\$ 41,463,575</u>	<u>\$ 38,737,197</u>
Supplemental cash flow information:		
Noncash capital contributions	46,434	-

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, 2012 and 2011

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).

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 State Investment Pools, Money Market, 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 and debt service. 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.

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.

B. Significant Accounting Policies (continued)

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 \$93,597 net of interest earned during the fiscal year 2012 and \$225,618 net of interest earned during the fiscal year 2011.

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

Effective October 1, 2011, the City early implemented GASB Statement No. 61, “The Financial Reporting Entity: Omnibus.” This statement modifies previous statements on the reporting entity to address reporting entity issues that have arisen since the issuance of those statements. The statement provides more guidance for including, presenting, and disclosing information about component units. It also amends the criteria for reporting component units as if there were part of the primary government (that is, blending) in certain circumstances. There is no impact on LP&L related to this statement.

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, 2012, City bank balances exposed to custodial credit risk were as follows:

Insured	\$ 30,674,843
Uninsured and uncollateralized	-
Uninsured and collateral held by pledging financial institution in the City's name	-
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the City's name	-
Total	<u>\$30,674,843</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, 2012, 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.

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.

Note 2: Deposits and Investments (continued)

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, 2012, LP&L's investments constituted the following percentages of total investments: State Investment Pools – 89.05%, FHLMC – 2.08%, FFCB – 3.04%, FNMA – 3.92%, and FHLB – 1.91%.

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, 2012 and 2011, LP&L had the following investments and maturities:

Type	30-Sep-12			30-Sep-11		
	Fair Value	Maturities in Years		Fair Value	Maturities in Years	
		Less Than 1	1-5		Less Than 1	1-5
Money market mutual funds	\$ 0	\$ 0	\$ 0	\$ 67,833	\$ 67,833	\$ 0
Federal Home Loan Banks	1,353,538	258,845	1,094,693	0	0	0
Federal Home Loan Mortgage Corporation (FHLMC)	1,469,896	0	1,469,896	740,555	0	740,555
Federal National Mortgage Association (FNMA)	2,774,855	0	2,774,855	2,602,828	748,430	1,854,398
Federal Farm Credit Bank (FFCB)	2,156,345	0	2,156,345	742,314	0	742,314
State Investment Pools *	63,071,637	63,071,637	0	80,694,627	80,694,627	0
	<u>\$ 70,826,271</u>	<u>\$ 63,330,482</u>	<u>\$ 7,495,789</u>	<u>\$ 84,848,157</u>	<u>\$ 81,510,890</u>	<u>\$ 3,337,267</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, 2012 and 2011 LP&L had zero dollars in internal financing.

Transfers out of \$12,296,061 for FY12 from LP&L to other City funds are the result of 1) General Fund indirect cost allocations of \$892,522; 2) payments to WTMPA for management and administration of \$357,882; 3) City franchise fee equivalents of \$9,224,615; 4) Payment in lieu of taxes of \$1,821,042.

Transfers out of \$12,582,120 for FY11 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 4: Inventory

The inventory at September 30, 2012 and 2011 was comprised of repair parts valued at \$170,671 and \$208,335, respectively.

Note 5: Deferred Charges

The total deferred charges of \$2,277,776 in 2012 and \$2,411,110 in 2011 represent an advertising contract with Texas Tech University. The amortization began when the United Spirit Arena opened in fiscal year 2000 and is for a total of thirty years.

Note 6: Goodwill

The goodwill of \$2,125,302 in 2012 and \$2,391,000 in 2011 represents the excess purchase price over the estimated value of capital assets purchased from Southwestern Public Service Company (SPS). The goodwill is amortized over a 10-year period.

Note 7: Capital Assets

Capital asset activity for the year ended September 30, 2012 follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets not being depreciated:				
Land	\$ 16,471,824	\$ 93,934	\$ -	\$ 16,565,758
Construction in Progress	9,067,641	23,865,198	19,434,303	13,498,536
Total Capital Assets not being depreciated	25,539,465	23,958,132	19,434,303	30,064,294
Capital Assets being depreciated:				
Buildings	8,005,610	199,956	299,082	7,906,484
Improvements Other than Buildings	285,131,087	17,551,063	3,594,208	299,087,942
Machinery & Equipment	64,033,540	4,031,126	539,275	67,525,391
Total Capital Assets being depreciated	357,170,237	21,782,145	4,432,565	374,519,817
Less Accumulated depreciation for:				
Buildings	3,940,927	202,747	293,087	3,850,587
Improvements Other than Buildings	116,981,489	16,342,603	3,360,082	129,964,010
Machinery & Equipment	32,556,753	4,492,425	431,266	36,617,912
Total Accumulated Depreciation	153,479,169	21,037,775	4,084,435	170,432,509
Capital Assets being depreciated, Net	203,691,068	744,370	348,130	204,087,308
Capital Assets, Net	\$ 229,230,533	\$ 838,304	\$ 348,130	\$ 234,151,602

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
Total Capital Assets not being depreciated	10,679,374	26,073,517	11,213,426	25,539,465
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
Capital Assets being depreciated, Net	142,655,732	61,216,322	180,986	203,691,068
Capital Assets, Net	\$ 153,335,106	\$ 87,289,839	\$ 11,394,412	\$ 229,230,533

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, 2012

Original Commitments	Spent-to-Date	Remaining Commitments
\$37,236,935	\$25,363,742	\$11,873,193

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.

The adopted plan provisions were as follows:

	<u>Plan Year 2011</u>	<u>Plan Year 2012</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, 2011 valuation is effective for rates beginning January 2013). The annual pension cost and net pension obligation are as follows:

Annual Required Contribution	\$3,157,654
Interest on Net Pension Obligation	143,354
Adjustments to the ARC	<u>(123,227)</u>
Annual Pension Cost (APC)	3,177,780
Contributions Made	<u>(3,015,575)</u>
Increase in net pension obligation	162,205
Net Pension Obligation, beginning of year	<u>1,984,527</u>
Net Pension Obligation, end of year	<u><u>\$2,146,732</u></u>

Actuarial Assumptions

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest valuation, December 31, 2011, also follows:

<u>Valuation Date</u>	<u>12/31/09</u>	<u>12/31/10</u>	<u>12/31/11</u>
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	28 years; closed period	27 years; closed period	26.1 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-yr Smoothed Mkt	10-yr Smoothed Mkt
Actuarial Assumptions: Investment Rate of Return	7.5%	7.0%	7.0%
Projected Salary Increase	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

Note 8: Retirement Plan (continued)

Three-Year Trend Information

As of September 30	Annual Pension Cost	Percentage Of APC Made	Net Pension Obligation
2010	\$3,183,134	77.3	\$1,165,697
2011	2,537,758	67.7	1,984,527
2012	3,177,780	94.9	2,146,732

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the City’s plan was 80.4 percent funded. The actuarial accrued liability for benefits was \$527.3 million, and the actuarial value of assets was \$424.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$103 million. The covered payroll (annual payroll of active employees covered by the plan) was \$81.2 million, and the ratio of the UAAL to the covered payroll was 126.9 percent. LP&L’s calculated amounts are presented in the accompanying Required Supplementary Information.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past experience 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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multi-year 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.

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

Note 9: OPEB (continued)

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 598 active participants who pay monthly premiums between \$361/\$45 (medical/dental) for single coverage and \$826/\$71 (medical/dental) for family coverage, pre-65. For post-65, monthly premiums are \$196/45 (medical/dental) for single coverage and \$587/\$71 (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 accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) 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	\$1,681,948
Interest on net OPEB obligation	117,493
Adjustment to the ARC	<u>(108,856)</u>
Annual OPEB Cost	1,690,585
Total annual employer contribution (pay-as-you-go)	<u>(497,022)</u>
Increase in net OPEB obligation	1,193,563
Net OPEB obligation – beginning of year	<u>2,548,040</u>
Net OPEB obligation – end of year	<u>\$3,741,603</u>

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2010	\$1,260,656	34.7%	\$1,791,935
09/30/2011	1,361,322	44.5%	2,548,040
09/30/2012	1,690,585	29.4%	3,741,603

Funded Status and Funding Progress: As of October 1, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$154,305,935, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$154,305,935. The covered payroll (annual payroll of active employees covered by the plan) was \$102,748,285, and the ratio of the UAAL to the covered payroll was 150.0 percent. LP&L’s percentage of the annual required contribution is calculated at 12.43%, hence, LP&L’s accrued liability for benefits was \$19,176,542 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of

Note 9: OPEB (continued)

\$19,176,542. The covered payroll (annual payroll of active employees covered by the plan) was \$12,769,146, and the ratio of the UAAL to the covered payroll was 150.0 percent.

Actuarial Methods and Assumptions: 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 projected 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 employ 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:

Inflation rate	3.0% per annum
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
Amortization period	30-year open amortization
Inflation assumption	3.0% per year
Healthcare trend	Initial rate of 8.5% declining to an ultimate rate of 4.5% after 8 years

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 multi-year 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 six 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 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:

<u>Average Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Issued</u>	<u>Balance Outstanding 9-30-12*</u>	<u>Balance Outstanding 9-30-11**</u>
4.60	08-15-03	04-15-23	\$ 8,900,000	\$ 5,640,000	\$ 6,030,000
4.60	08-15-03	04-15-23	13,270,000	610,000	1,195,000
3.89	02-15-05	04-15-25	23,055,000	11,435,000	13,065,000
4.26	08-15-05	02-15-25	2,670,000	1,985,000	2,095,000
4.58	04-15-06	02-15-26	6,077,282	4,916,320	5,152,856
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	10,996,276	11,476,034
4.42	04-15-08	08-15-27	6,498,295	5,724,614	5,952,597
4.36	03-01-09	08-15-29	6,936,647	6,369,627	6,607,506
5.10	02-15-10	02-15-30	5,410,997	5,115,464	5,328,068
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	1,970,000
Total			<u>\$94,357,323</u>	<u>\$61,154,745</u>	<u>\$65,264,505</u>

* Balance outstanding excludes (\$1,159,002) of discounts and deferred losses and \$1,938,195 of premiums.

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

At September 30, 2012, 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

<u>Interest Rate (%)</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Issued</u>	<u>Balance Outstanding 9-30-12*</u>	<u>Balance Outstanding 9-30-11**</u>
4.00 to 5.25	7-01-01	4-15-21	\$ 9,200,000	\$ 4,140,000	\$ 4,600,000
3.50 to 5.00	10-15-10	4-15-20	73,295,000	59,580,000	65,720,000
Total			<u>\$ 82,495,000</u>	<u>\$ 63,720,000</u>	<u>\$ 70,320,000</u>

* Balance outstanding excludes \$5,371,209 of net deferred losses on advance refundings, bond premiums and discounts, and bond issuance costs.

** Balance outstanding excludes \$6,056,910 of net deferred losses on advance refundings, bond premiums and discounts, and bond issuance costs.

Note 11: Long-Term Liabilities (continued)

The annual requirements to amortize LP&L's outstanding debt as after the effects of the called bonds discussed in Note 16 are as follows:

Fiscal Year	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2012-13	\$ 9,446,725	\$ 2,914,591	\$ 6,845,000	\$ 2,909,440
2013-14	3,912,120	2,458,485	7,100,000	2,632,190
2014-15	4,025,645	2,271,358	7,365,000	2,344,050
2015-16	4,143,672	2,081,369	7,660,000	2,022,850
2016-17	4,270,362	1,871,306	8,020,000	1,639,850
2018-22	17,701,420	6,492,223	26,730,000	2,594,581
2023-27	14,850,854	2,392,749	-	-
2028-30	2,803,947	151,420	-	-
Totals	<u>\$ 61,154,745</u>	<u>\$ 20,633,501</u>	<u>\$ 63,720,000</u>	<u>\$ 14,142,961</u>

The annual requirements for capital leases as of September 30, 2012, including interest payments of \$6,463 are as follows:

Fiscal Year	Capital Lease Minimum Payment
2012-13	\$ 184,829
2013-14	5,941
2014-15	5,941
2015-2016	5,941
2017-2018	5,941
2018-2019	5,941
Less:	
Interest	<u>(6,463)</u>
Net Present Value of Minimum Lease Payments	<u>\$ 208,071</u>

The carrying values of the leased assets of LP&L as of September 30, 2012 are as follows:

	Gross Value	Accumulated Depreciation	Net Book Value
LP&L Capital Leased Assets	\$ 4,997,504	\$ 3,396,925	\$ 1,600,579

Note 11: Long-Term Liabilities (continued)

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2012 and 2011 are as follows:

Fiscal Year 2012	Balance 9/30/2011	Additions	Deletions	Balance 9/30/2012	Due in one year
LP&L activities:					
General Obligation Bonds	\$66,083,126	\$ -	\$4,149,188	\$61,933,938	\$9,446,725
Revenue Bonds	76,376,910	-	7,285,701	69,091,209	6,845,000
Capital Leases	867,223	-	659,152	208,071	180,722
Compensated Absences	2,725,168	1,830,427	1,460,583	3,095,012	1,585,416
Other Post Employment Benefits	2,548,040	1,193,563	-	3,741,603	-
Net Pension Obligation	1,984,527	162,205	-	2,146,732	-
Total LP&L activities	\$150,584,994	\$3,186,195	\$13,554,624	\$140,216,565	\$18,057,863

Fiscal Year 2011	Balance 9/30/2010	Additions	Deletions	Balance 9/30/2011	Due in one year
LP&L activities:					
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	-
Total LP&L activities	\$90,343,122	\$78,152,454	\$17,910,582	\$150,584,994	\$12,829,496

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 used primarily for capital related purposes and are included in net assets invested in capital assets, net of related debt.

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 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.

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 determined.

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. Departments that sustain property damage in excess of \$10,000 are eligible to request assistance from the Risk Management Fund for payment of those damages up to the \$250,000 policy deductible.

Other small insurance policies, such as surety bond coverage and miscellaneous floaters, are also accounted for in the Risk Management Fund. LP&L is 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.

Montez v. City of Lubbock

Plaintiff is alleging stepping into a hole where a utility pole previously existed and the hole was not marked to warn of danger or prevent injury.

Republic Power Partners, L.P. v. WTMPA and the City of Lubbock

The City originally received a Demand for Payment letter from Republic Power Partners. Republic is seeking payment pursuant to a Development Agreement it had entered into with West Texas Municipal Power Agency (WTMPA) to develop a power project. Republic is claiming damages as a result of an alleged breach of representations of WTMPA per the Development Agreement. Republic has since filed suit against WTMPA and the City for breach of contract. WTMPA and the City have filed pleas. WTMPA's plea was denied and the City's was granted. Both WTMPA and Republic are appealing the respective denials.

Management does not currently believe that these cases will have a significant impact on the financial position of LP&L.

Note 15: Site Remediation

LP&L accounts for pollution remediation obligations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. LP&L, through the City, contracts with an engineering firm (eHT/Enprotec) to perform the necessary remediation activities. Enprotec works closely with the Texas Commission on Environmental Quality (TCEQ). Because the issues have been in existence for some time, the remediation activities required to be performed have been approved by TCEQ. LP&L has a set plan of action for each property that TCEQ requires the LP&L to follow.

The potential exposure is estimated as of September 30, 2012. LP&L Cooke fuel storage tanks' expected remaining liability is \$171,000 and is recorded in accrued liabilities on the Statement of Net Assets.

Note 16: Subsequent Events

On November 13, 2012 \$5,640,000 in bond obligations were called and redeemed.

Required Supplementary Information

**TEXAS MUNICIPAL RETIREMENT SYSTEM
THREE-YEAR HISTORICAL SCHEDULE OF ACTUARIAL LIABILITIES
AND FUNDING PROGRESS (UNAUDITED)
LP&L'S PORTION**

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 ²	41,538,197	67,740,039	61.3%	26,201,842	14,372,108	182.3
2010 ³	73,989,936	93,734,398	78.9%	19,744,463	14,372,108	137.4
2011	61,134,252	75,990,855	80.4%	14,856,603	11,704,248	126.9

*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%; 2011, 18.54%; and 2012, 14.41%

**Based on Fiscal Years converted to Calendar Years.

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

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 ²	TMRS	224,046,370	365,372,379	141,326,009	61.3	77,519,460	182.3
12/31/10 ³	TMRS	399,082,717	505,579,279	106,496,562	78.9	77,519,460	137.4
12/31/11	TMRS	424,248,797	527,348,056	103,099,259	80.4	81,223,098	126.9
10/01/07	OPEB	-	81,918,738	81,918,378	-	88,185,412	92.9
10/01/09	OPEB	-	126,167,945	126,167,945	-	95,693,148	131.8
10/01/11	OPEB	-	154,305,935	154,305,935	-	102,784,285	150.1

¹Health/Dental Care Insurance Plan

²Actuarial valuation performed under the original fund structure

³Actuarial 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.

Required Supplementary Information (continued)

TMRS issues a publicly available comprehensive annual financial report that provides detailed explanations of actuarial assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.