Annual Financial Report

Fiscal Years Ended September 30, 2013 and 2012

Lubbock Power & Light

The power is yours.

Annual Financial Report

For the Fiscal Years Ended September 30, 2013 and 2012

LP

Annual Financial Report

Elected, Appointed, and Principal Officials

City Council

Glen C. Robertson	Mayor
Karen Gibson	Mayor Pro Tem - District 5
Victor Hernandez	Council Member - District 1
Floyd Price	Council Member - District 2
Todd R. Klein	Council Member – District 3
Jim Gerlt	Council Member - District 4
Latrelle Joy	Council Member – District 6

Electric Utility Board

Greg Taylor	Chair
Jerry Bell	Vice Chair
James Conwright	Secretary
Emilio Abeyta	Member
Suzanne Blake	Member
Don Boatman	Member
George Carpenter	Member
Charles Dunn	Member
Clayton Isom	Member
Glen C. Robertson	Ex-Officio Member

Principal Officials

Gary Zheng, PhD, P.E.	Chief Executive Officer
Todd Kimbrough	General Counsel
Andy Burcham	Chief Financial Officer
Steve Comey	Distribution Superintendent
James Gilmore	Production Superintendent
Damian Pantoya, CPA, CIA	Finance Director
Chad Sales	Financial Analyst

Annual Financial Report

For the Fiscal Years Ended September 30, 2013 and 2012

Table of Contents

LP

Lubbock Power and Light
City Electric System
Introduction
For the Years Ended September 30, 2013 and 2012

Lubbock Power and Light (LP&L) is pleased to present its Basic Financial Statements for the fiscal years ended September 30, 2013 and 2012. This report is published to provide the Electric Utility Board (Board), City of Lubbock (City), bondholders, rating agencies, representatives of financial institutions, and other interested parties detailed information concerning the financial condition of LP&L. The accompanying financial statements present only LP&L, and are not intended to fairly present the financial position or results of operations of the City.

LP&L operates the municipally owned electric utility and is an enterprise activity of the City. The Board, established on November 2, 2004, is appointed by the City Council and is empowered with the custody and management of LP&L operations. The City Council retains authority for approval of the annual budget, rates for electric service, eminent domain, and approval of debt financing.

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 position, changes in net position, and cash flows of LP&L in conformity with accounting principles generally accepted in the United States of America.

LP

BKD LLP
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961
972.702.8262 // fax 972.702.0673 // bkd.com

Independent Auditor's Report

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

We have audited the accompanying basic financial statements, which are comprised of the statements of net position as of September 30, 2013 and 2012, and the statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the basic financial statements, as listed in the table of contents, of Lubbock Power & Light, an enterprise fund of the City of Lubbock, Texas.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 1 A*, 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, 2013 and 2012, 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. Our opinion is not modified with respect to this matter.

As discussed in *Note 1 B* to the financial statements, in the current year, Lubbock Power & Light changed its method of accounting for bond issuance costs with the adoption of Governmental Accounting Standards Board Statement No. 65. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension/other post-employment benefit 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

Dallas, Texas
February 17, 2014

INTRODUCTION

The following Management's Discussion and Analysis (MD&A), serves as an introduction to the financial statements of Lubbock Power & Light (LP&L). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ended September 30, 2013 (FY 2013), compared to the fiscal years ended September 30, 2012 (FY 2012) and September 30, 2011 (FY 2011). Fiscal years 2012 and 2011 have not been restated for implantation of Governmental Accounting Standards Board (GASB) statements 63 and 65. This MD&A has been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and should be read in conjunction with the audited financial statements and accompanying notes that follow.

BASIC FINANCIAL STATEMENTS

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

Statements of Net Position: These statements include LP&L's assets, deferred outflows of resources, and liabilities and provide information about the nature and amount of assets and obligations (liabilities) of LP&L. They also provide the basis for the evaluation of LP&L's capital structure, liquidity, and financial flexibility.

Assets are separated into current and noncurrent categories and are reported in the order of liquidity. Current assets include unrestricted cash and cash equivalents, investments, accounts receivable and inventories, as well as prepayments and other current assets. Noncurrent assets include, investments that have been restricted by state laws, ordinances, or contracts; prepayments; goodwill; and net capital assets.

GASB Concept Statement No. 4, *Elements of Financial Statements*, defines deferred outflows of resources as the consumption of net position in one period that are applicable to future periods. Currently, the only elements reported in LP&L's Statements of Net Position as deferred outflows of resources relate to charges on refundings.

Consistent with the reporting of assets, liabilities are segregated into current and noncurrent categories. Current liabilities include the current maturities of debt, accounts payable, accrued liabilities, due to other funds, customer deposits, and other current liabilities. Noncurrent liabilities include net long-term debt, net other postemployment benefits (OPEB), pension obligations, etc.

The components of net position are classified as net investment in capital assets, restricted or unrestricted. An unrestricted designation indicates the net position is available for operations.

Statements of Revenues, Expenses, and Changes in Net Position: These statements 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. Operating expenses are presented by major cost categories. Revenues remaining are available to service debt, to fulfill city payment commitments, to finance capital expenditures, and to cover contingencies.

Operating results are reported separately from nonoperating activities, which primarily relate to financing and investing. Other payments to the City and contributed capital are reported separately as components of the change in net position.

Statements of Cash Flows: These statements present cash receipts, cash disbursements, and net changes in cash resulting from operations, financing (noncapital and capital) and investing activities.

Notes to the Financial Statements: The notes provide required disclosures and other information that is essential to a full understanding of material data provided in the statements. The notes present information about LP&L's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events.

FINANCIAL HIGHLIGHTS

Electric Rate Study and Modeling – In November 2012, LP&L retained J. Stowe & Co., (J. Stowe) to develop a long-term financial forecast, cost-of-service, and proposed rate design study (collectively the "Study").

Historically, LP&L was in direct competition with Southwestern Public Service Company (SPS), a subsidiary of Xcel Energy (Xcel). Due to the direct competition and similarity in utility infrastructure and systems, the Board and City Council typically set retail rates by matching and/or providing a discount from Xcel's retail rates. However, with the acquisition of Xcel's distribution system, planning for future power supply requirements, and growth in capital plans, LP&L began evaluating projected system revenues and expenses. A projected under-recovery of costs led LP&L to pursue the Study to ensure current and future financial stability.

The Study included a long-term financial plan for the electric system, determined the total cost of providing electric services, equitably distributed the costs to customers, and designed rates to safeguard the financial integrity of the utility. The total cost of providing services included costs associated with operations and maintenance, debt service, and cash capital outlays.

The Study was performed for years 2013-2019 and included the preparation of a detailed seven-year financial forecast, an analysis of estimated revenue requirements, an unbundled cost-of-service analysis based on FY 2013, a rate analysis, and the development of proposed new electric rates for each customer class.

As a result of the Study, LP&L has incorporated all of J. Stowe's recommendations in its financial modeling, rate setting, and strategic planning practices, as follows:

- adopt rates as described and proposed in the Study
- modify the rate structure to accurately reflect base rates (e.g. LP&L costs) and purchased power costs (e.g. non-LP&L costs or Xcel purchased power)

- evaluate the need for further rate adjustments in coordination with debt issuances annually by updating the financial forecast model
- utilize increased amounts of debt in the initial years of the planning horizon, and then decrease the use of debt as rate revenues increase in later years
- update the financial forecast model periodically (e.g. every six months) to support budgeting and rate related decision-making
- perform a comprehensive cost-of-service study every three to five years, or when aligned with a major change in operations such as a new purchased power contract, a new large industrial customer, or significant change in system operations

Rate Increase – Rates are set by the Board and approved by the Lubbock City Council. On May 9, 2013, the City Council approved a 9.7 percent increase in LP&L's electric base rates, which became effective on June 1, 2013. The 9.7 percent rate increase was the average increase of all rate classes, and was the amount necessary to meet the revenue requirements as calculated by the new financial model.

Capital Program – A total of 25 new capital projects and 8 existing capital projects were funded during FY 2013. The total estimated costs of these projects was $19.9 million. The blend of funding sources used for these projects was composed of 30.1 percent equity and 69.9 percent debt. The blend of financing is reviewed annually to determine if any adjustments are necessary, but is set at 35 percent equity and 65 percent debt in the financial model over the 7-year planning horizon. The significant projects funded during the fiscal year included the replacement of two cooling towers at Massengale Station, totaling $4.2 million; distribution transformers, totaling $2.3 million; and the underground distribution line, overhead distribution line, and vehicle replacement projects described in the next paragraph.

Several capital projects were completed in FY 2013 and were moved from construction in progress to the appropriate capital asset category. The completed projects included:

- Underground Distribution ($2.1 million) – the installation of underground primary and/or secondary lines used to provide electric service to new customers.
- Overhead Distribution ($1.2 million) – the upgrade or line extension of overhead primary and/or secondary upgrades to serve electric customers.
- Vehicle Replacement ($1.3 million) – the replacement of ½-ton pickups, 1-ton pickups, line trucks, and bucket trucks used in the daily business of LP&L.
- Information System Migration/Telephone Technology ($1.6 million) – the upgrade of the utility billing and collection client server environment software known as Banner to the current web-based version of the Customer Suite products that include numerous functional and technical improvements to enhance efficiency in utility operations.

Debt Issuance – During FY 2013, LP&L issued $16.57 million in revenue and refunding bonds. The majority of this issue, totaling $14.02 million, funded capital projects in the FY 2013 capital program. The remainder of this issue, totaling $3.71 million, funded the current refunding of Series 2001 bonds, resulting in a net present value debt service savings of $0.5 million, or 14.2 percent of the par amount of bonds being refunded. These bonds were issued at a premium ($1.37 million) and the true interest cost for this issuance was 1.90 percent.

The City also issued two series of advance refunding bonds, with LP&L's share being $5.99 million and $2.585 million respectively. Both refunding transactions resulted in decreased total debt service requirements with over 10.0 percent savings on the refunded bonds. The true interest cost for these issues was 1.61 percent and 1.76 percent, respectively.

Meter Growth – LP&L's meter base totaled 101,416 and 100,544 meters at September 30, 2013 and 2012, respectively. The 2013 meter increase of 0.87 percent, and the 2012 increase of 0.89 percent, were modest because there was not significant growth in LP&L's certificated area during these fiscal years.

RESULTS OF OPERATIONS

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

	2013	2012	2011
Operating revenues			
Charges for services	$ 212,656,108	$ 189,208,522	$ 201,459,258
Non-operating revenues			
Investment earnings	31,706	126,640	44,489
Other	345,870	715,795	1,135,413
Total revenues	213,033,684	190,050,957	202,639,160
Operating expenses (including interest)	195,052,106	181,044,466	188,715,660
Contributions	73,865	46,434	-
Excess before transfers	18,055,443	9,052,925	13,923,500
Transfers	(13,394,793)	(12,296,061)	(12,582,120)
Change in net position	4,660,650	(3,243,136)	1,341,380
Net position, beginning of year *	166,875,653	170,555,076	169,213,696
Net position, end of year	**$ 171,536,303**	**$ 167,311,940**	**$ 170,555,076**

* Restated beginning Net position for FY13 due to change in GASB pronouncements

Total Revenues and Nonoperating Income

FY 2013 – Operating revenues were $212.7 million, representing a 12.4 percent increase from FY 2012. The increase was mostly related to an increase in the purchased power recovery factor necessary to cover higher purchased power pass-through costs; and was also related to an average 9.7 percent electric rate increase approved by the Board and the City Council, effective June 1, 2013.

Natural gas prices were $3.42 per one million British thermal units (MMBtu) in October 2012, peaked at $4.30 per MMBtu in April 2013, and ended FY 2013 at $3.73 per MMBtu. Since natural gas is the largest driver of purchased power costs, the increase in the price of this commodity impacted operating revenues as well as purchased power costs.

LP&L purchases 100 percent of its power from Xcel through a full-requirements contract. All of the generating assets are under contract with Xcel with unit contingent agreements. These agreements produced $11.3 million in revenue in FY 2013. Additionally, LP&L's net nonoperating revenues totaled $0.4 million for FY 2013.

FY 2012 – Operating revenues were $189.2 million, representing a 6.1 percent decrease from FY 2011. The decrease was substantially due to a decline in fuel costs and lower retail sales as a result of more moderate temperatures compared to FY 2011.

Operating Expenses

FY 2013 – Operating expenses, excluding interest expense, were $190.2 million, representing an 8.2 percent increase from FY 2012. The increase was due to increased fuel costs which are highly correlated to natural gas prices, as discussed in the previous section. Within total operating expenses, the purchased power cost of $136.6 million represented 71.8 percent of total operating expenses for FY 2013.

Operating expenses, excluding purchased power costs and interest expense, totaled $53.6 million, an increase of $3.8 million, or 7.6 percent, compared to FY 2012. Contributing to the increase was higher labor and benefit costs, increased tree-trimming expenses, and unplanned events including a major storm power outage in June and major generator weld repair. Partially offsetting the increase was lower maintenance costs related to the distribution network.

FY 2012 – Operating expenses, excluding interest expense, were $175.8 million, representing a 4.0 percent decrease from FY 2011. The decrease was primarily due to lower fuel related energy costs, lower consumption as a result of moderate temperatures, and reduce charges such as utilities and advertising. Also, in 2011 there were significant consulting costs due to the Xcel acquisition that were not present in 2012.

Nonoperating Expenses

FY 2013 – Interest and debt-related expense of $4.9 million was down $0.4 million, compared to FY 2012, due to lower bond and master lease interest payments.

Transfers to the City totaled $13.4 million, up from $12.3 million in FY 2012. The increase in transfers was primarily related to an increased payment in lieu of property tax and an increased payment in lieu of a franchise fee. These two transfers are based on a percentage of revenues, and since revenues were higher in FY 2013, these transfers increased accordingly. Additionally, the indirect cost allocation transfer increased $0.1 million, or 14.7 percent, driven by higher costs associated with the City's Fiscal Policy, Accounting, City Attorney, and City Secretary departments.

FY 2012 – Interest and debt-related expense of $5.3 million was down $0.4 million compared to FY 2011 due to lower bond and master lease interest payments.

Transfers to the City totaled $12.3 million, down from $12.6 million in FY 2011. The decrease was due to reduced consumption related to lower temperatures when comparing FY 2012 to FY 2011. The decreased sales translated into a lower payment in lieu of a franchise fee and payment in lieu of property tax to the City.

Other Changes in Net Position

FY 2013 – Net position for the years ended September 30, 2013 and 2012 were $171.5 million and $166.9 million (as restated), respectively. Due to GASB 65, the prior year's net position was changed because the bond issuance costs are no longer amortized but rather are expensed. The amount of this restatement was a reduction in net position, totaling $436,287.

Net income before transfers of $18.0 million was $9.0 million higher than the FY 2012 net income of $9.0 million. Primarily contributing to this variance were increased charges for service due to the rate increase that was effective June 1, 2013, and increased revenues related to the unit contingent contracts on LP&L's generating stations with Xcel.

Transfers, totaling $13.4 million, are deducted from net income to provide the total change in net position. The transfers are comprised of a payment to the City in lieu of property tax, totaling $2.0 million; a payment to the City in lieu of a franchise fee, totaling $9.9 million; an indirect cost allocation transfer to the City to cover certain administrative costs, totaling $1.0 million; payments to WTMPA for management and administration services, totaling $0.3 million; and a contribution of $0.2 million of street lights to the City's Governmental Fund.

LP&L's change in net position was $4.7 million compared to a loss of $3.2 million for FY 2012, reflecting an increase of $7.9 million, which was driven by factors previously discussed.

FY 2012 – Net position for the years ended September 30, 2012 and 2011 were $166.9 million (as restated) and $170.6 million, respectively. Due to GASB 65, the FY 2012 net position was changed because the bond issuance costs are no longer amortized but rather are expensed.

Net income of $9.0 million was $4.9 million less than the FY 2011 net income of $13.9 million. Primarily contributing to this variance was increased purchased power costs other than fuel that were not passed through to the customers.

Transfers, totaling $12.3 million, were $0.3 million less than the prior fiscal year mainly due to the lower charges for service as a result of lower fuel related energy costs.

LP&L's change in net position was a loss of $3.2 million compared to a gain of $1.3 million for FY 2011, reflecting a decrease of $4.6 million, which was driven primarily by the items noted for the change in net income.

FINANCIAL POSITION

Condensed Statements of Net Position

	2013	2012	2011
Assets:			
Current assets	$ 83,608,126	$ 78,492,055	$ 94,251,548
Capital assets, net	231,249,629	234,151,602	229,230,533
Noncurrent investments	14,892,345	13,697,174	14,177,135
Goodwill	1,859,604	2,125,302	2,391,000
Prepaid expenses	2,144,443	2,277,776	2,411,110
Total assets	333,754,147	330,743,909	342,461,326
Deferred charge on refunding	$ 777,990	$ -	$ -
Liabilities:			
Current liabilities	36,988,393	41,273,267	34,150,752
Noncurrent liabilities	126,007,441	122,158,702	137,755,498
Total liabilities	162,995,834	163,431,969	171,906,250
Net position:			
Net investment in capital assets	105,147,115	105,432,338	89,040,422
Restricted	12,305,835	11,183,220	11,039,987
Unrestricted	54,083,353	50,696,382	70,474,667
Total net position	**$ 171,536,303**	**$ 167,311,940**	**$ 170,555,076**

Current Assets

FY 2013 – Current assets at September 30, 2013, of $83.6 million were $5.1 million higher than the balance at September 30, 2012. Customer accounts receivable increased $9.8 million, of which unbilled revenues contributed $3.3 million. Partially offsetting this increase was a $4.6 million decrease in cash, cash equivalents, and investments mainly due to the defeasance of $5.6 million in debt during the fiscal year.

FY 2012 – Current assets at September 30, 2012, of $78.5 million were $15.8 million lower than the balance at September 30, 2011. Cash, cash equivalents, and investment balances decreased $13.5 million due to operating losses and cash contributions to CIP. Customer accounts receivable decreased $2.2 million due to the decrease in pass through fuel costs.

Noncurrent Assets

FY 2013 – Noncurrent restricted assets totaled $18.9 million at September 30, 2013, an increase of $0.8 million compared to September 30, 2012. The increase was largely attributable to an increase in restricted investments as a result of unspent bond proceeds from the Series 2013 issuance.

FY 2012 – Noncurrent restricted assets totaled $18.1 million at September 30, 2012, a decrease of $0.9 million compared to September 30, 2011. The decrease was largely attributable to a decrease in restricted investments as a result of bond proceed draws for capital expenditures.

Capital Assets, Net

FY 2013 – At September 30, 2013, net capital assets of $231.3 million decreased $2.9 million from $234.2 million at September 30, 2013. The decrease was due to the depreciation, or retirement of assets, being greater than the acquisition and development of capital assets. Net capital assets have been relatively constant due to the stability of LP&L's certificated area and are mainly comprised of generating units, electric meters, substations, and distribution lines listed in the table below:

	2013	2012	2011
Generating stations	4	4	4
Substations	37	37	38
Distribution lines	2,202	2,202	2,202
Transmission lines	105	96	85

FY 2012 – Capital assets increased $4.9 million in 2012 due to additions to the infrastructure acquired and constructed by LP&L in its normal course of business as there was $19.4 million assets put into operations and $23.8 million additions to the capital program.

Deferred Outflows of Resources

FY 2013 – Deferred outflows of resources increased $0.8 million, from zero at September 30, 2012, and were composed entirely of deferred charges on refunding, which was previously, reported in current and noncurrent bonds payable.

FY 2012 – Deferred outflows of resources were $0 at September 30, 2012 as GASB 63 was not yet implemented.

Current Liabilities

FY 2013 – Excluding current maturities of bonded debt totaling $12.3 million, current liabilities decreased $0.3 million, from $25.0 million at September 30, 2012, to $24.7 million at September 30, 2013. The decreased balance was primarily due to a $1.6 million decrease in operating accounts payable and a $0.3 million decrease in accrued interest payable. Partially offsetting the decrease was a $0.7 million increase in West Texas Municipal Power Agency accounts payable, a $0.5 million increase in customer deposits, and a $0.4 million increase in accrued liabilities.

FY 2012 – Excluding current maturities of bonded debt totaling $16.3 million, current liabilities increased $1.6 million, from $23.4 million at September 30, 2011, to $25.0 million at September 30, 2012. The increased balance was primarily due to a $1.5 million increase in operating accounts payable.

Other Noncurrent Liabilities

FY 2013 – Excluding the noncurrent portion of debt of $117.1 million, long-term liabilities increased $1.4 million to $8.8 million at September 30, 2013, primarily due to a $1.3 million increase in other post-employment benefits (OPEB) and pension liabilities.

FY 2012 – Excluding the noncurrent portion of debt of $114.7 million, long-term liabilities increased $1.4 million to $7.4 million at September 30, 2012, due to a $1.4 million increase in OPEB and pension liabilities.

LONG-TERM DEBT

Long-Term Debt

FY 2013 – At September 30, 2013 LP&L's total outstanding debt was $129.4 million. This long-term debt was composed of $53.6 million in general obligation certificates/bonds, $75.8 million in revenue bonds. All outstanding debt is comprised of fixed-interest-rate instruments.

New Issuance – In May 2013, LP&L issued $16.57 million Electric Light and Power System Revenue Refunding and Improvement Bonds, Series 2013. The true interest cost for this issuance, which has maturities in 2014 through 2024, is 1.90 percent. Bond proceeds, totaling $14.02 million, were issued for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for LP&L's system. Additionally, bond proceeds, totaling $3.71 million, were used to refund $3.68 million par value of Series 2001 Electric Light & Power System Revenue Bonds. This refunding transaction resulted in a net present value debt service savings of $0.5 million, or 14.2 percent of the par amount of bonds being refunded.

Advance Refundings – In May 2013, the City issued approximately $39.71 million General Obligation Refunding Bonds Taxable, Series 2013, with LP&L's portion being $5.99 million. This refunding transaction resulted in decreased total debt service requirements and a 10.2 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2013 through 2021 and term bonds with maturities in 2027 through 2033, is 1.61 percent.

In May 2013, the City issued approximately $42.08 million General Obligation Refunding and Improvement Bonds, Series 2013, with LP&L's portion being $2.585 million. This refunding transaction resulted in decreased total debt service requirements and an 11.0 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2013 through 2033, is 1.76 percent.

Reductions – In addition to the refundings described above, that resulted in reductions in long-term debt outstanding, LP&L made principal payments of $6.845 million on its revenue bonds, $9.446 million on its general obligation bonds/certificates of obligation, and defeased $5.64 million of Series 2003 Tax and Electric Light and Power System Surplus Revenue Refunding Bonds in FY 2013.

FY 2012 – At September 30, 2012 LP&L's total debt was $131.0 million. This long-term debt was composed of $61.2 million in general obligation certificates/bonds, $63.7 million in revenue bonds, and $6.1 million of net deferred loses on advance refundings, bond premiums and discounts, and bond issuance costs. All outstanding debt is comprised of fixed-interest-rate instruments. LP&L issued no debt obligations in FY 2012 and reduced principal by $11.434 million in FY 2012.

CURRENTLY KNOWN FACTS

Future Generation: Integrated Resource Plan – An Integrated Resource Plan (IRP) was conducted by Black & Veatch (B&V) for the West Texas Municipal Power Agency (WTMPA) to analyze power supply alternatives for a 20-year period beginning upon the expiration of WTMPA's existing full requirements power purchase from SPS. The Transaction Agreement for Total Requirements Power Service between WTMPA and SPS provides that SPS serve the entire capacity and energy requirements of the WTMPA members (of which LP&L is a member). The term of the agreement is through the hour ending at midnight on May 31, 2019, unless cancelled earlier. LP&L entered into an agreement with SPS under which SPS will provide partial requirements power to LP&L, effective June 1, 2019 and scheduled to terminate at hour ending midnight on May 31, 2044. Expiration of the full requirements power purchase followed by commencement of the partial requirements power purchase leaves a significant amount of capacity required to meet projected WTMPA needs beginning in 2019.

Based on detailed evaluations in the IRP, B&V recommended that a Request for Proposals (RFP) process be initiated to purchase all or some of the capacity necessary for 2019. In May 2013, LP&L issued an RFP for capacity and energy supply services. Best and final offer responses to the RFP were received on September 10, 2013, and were still under review at September 30, 2013.

Economic Factors – The Department of Energy, via the U.S. Energy Information Administration (EIA), forecasts key energy economic indicators in the United States. Key economic factors that will play a role in operations for 2014 as reported by the EIA are as follows:

- Electricity Generation – Generation from coal and natural gas is projected to be 1.9 percent higher and 0.8 percent lower, respectively. This trend reflects the increased fuel costs for generation using natural gas.
- Electricity Retail Prices – The major factor for the projected rise in the price of electricity is the increasing cost of natural gas. The EIA expects electricity prices to average 12.3 cents per kilowatt hour (kWh) for calendar year 2014, which is a 1.7 percent increase over 2013.
- Natural Gas Prices – The EIA expects the Henry Hub natural gas spot price to average $3.78 per MMBtu in calendar year 2014 compared with $3.69 per MMBtu in calendar year 2013 and $2.75 per MMBtu in calendar year 2012.
- Coal Prices – Low natural gas prices, low electricity demand growth, and compliance with regulations have led power producers to plan for the retirement of coal-fired facilities. The EIA expects nominal annual average coal prices for the electric power industry to fall from $2.40 per MMBtu in calendar year 2012 to $2.35 per MMBtu in calendar year 2013. The EIA forecasts average delivered coal prices of $2.39 per MMBtu in 2014.
- Generation Mix – LP&L is in the Southwest Power Pool (SPP) which maintained the following generation mix in each of the following time periods:

	12/31/2013	CY 2012	CY 2011
Coal	65%	35%	40%
Natural gas	19%	49%	42%
Dual fuel	0%	0%	6%
Wind	7%	11%	4%
Hydro	< 1%	1%	4%
Nuclear	9%	4%	3%
Pumped storage/biomass	0%	0%	1%
	100%	**100%**	**100%**

GASB Implementations – The following guidance issued by the GASB is expected to be effective for FY 2014, or FY 2015, where indicated:

- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, removes from GASB Statement No. 10 certain provisions pertaining to fund-based reporting and modifies specific guidance in GASB Statement No. 62 on accounting for (1) certain types of lease payments, (2) certain elements of purchased loan transactions, and (3) certain fees related to mortgage loans that are sold. The implementation date is for financial periods beginning after December 15, 2012.

- GASB Statement No. 67, *Financial Reporting for Pension Plans,* amends the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts, or equivalent arrangements. This Statement enhances note disclosures and required supplementary information (RSI) for both defined-benefit and defined-contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in ten-year RSI schedules. The adoption of this statement will impact disclosures, expand RSI, actuarial valuation timing, and actuarial assumptions. The implementation date is for financial periods beginning after June 15, 2013.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, amends the requirements of GASB Statement No. 27*, Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of GASB Statement No. 50*, Pension Disclosures*, as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. Employers are required to report the difference between the actuarial total pension liability and the pension plan's fiduciary net position as the net pension liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to the plan were exceeded by the actuarially calculated annual required contributions. Adoption of this Statement is required for LP&L by FY 2015. The implementation of this statement is expected to have a material effect on net position.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting guidance related to government combinations and disposals of government operations. The term *government combinations* refers to a variety of transactions and may be mergers, acquisitions, or transfers of operations. This standard sets forth definitions of each of these transaction types and prescribes the specific accounting and reporting treatment to be given for each. The Statement also provides accounting and reporting guidance for disposals of government operations that have been sold or transferred. The requirements of this Statement will be applied prospectively, beginning in the period of adoption. Adoption of this Statement is required for LP&L by FY 2015. LP&L expects minimal impact as its sole purpose is to provide electricity.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions,* issued in April 2013, provides accounting and disclosure guidance for transactions in which a government has extended or received a financial guarantee without directly receiving equal-value consideration in exchange. This guidance requires a government that has extended or received a nonexchange financial guarantee to recognize a liability in certain circumstances involving the likelihood or actuality of payments being made on those guarantees. Adoption of this Statement is required for LP&L in FY 2014. LP&L expects no immediate impact from the implementation of this guidance, as it is currently neither the grantor nor the beneficiary of any nonexchange financial guarantees.

Legislation and Regulations – There are several pending federal environmental regulations that pertain to power plant and air pollution controls addressing greenhouse gases. However the impact is expected to be minimal since LP&L does not own or operate coal fired power plants.

Pending federal electric reliability regulations pertaining to high voltage electric transmission lines and equipment could impact LP&L, and the impact is expected to be marginal as LP&L begins construction of a high voltage electric loop around its service territory.

LP&L is continually monitoring the requirements of regulations to assess the impact and is making plans for maintaining compliance with each of the pending regulations. In addition to acquiring vendor support to perform gap analysis and regulatory review as needed, LP&L has dedicated a regulatory compliance specialist on staff to coordinate environmental and electric reliability compliance efforts.

Federal Budget Developments – As Congressional lawmakers continue to look for ways to reduce the federal deficit, elimination or capping the tax exemption on municipal bond interest has been one item under consideration. As these proposals are in the early stages of development, there is still uncertainty regarding the impact any resulting legislation may ultimately have on the tax-exempt status of LP&L's bonds.

REQUESTS FOR INFORMATION

Questions concerning any of the information found in this report, or requests for additional information should be directed to Finance Department, 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 Position
September 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Pooled cash and cash equivalents	$ 9,988,522	$ 9,210,713
Investments	42,512,560	47,918,384
Receivables, net	30,931,472	21,156,814
Interest receivable	21,907	10,473
Prepaid expenses	25,000	25,000
Inventories	128,665	170,671
Total current assets	83,608,126	78,492,055
Noncurrent assets:		
Restricted investments	14,892,345	13,697,174
Goodwill	1,859,604	2,125,302
Prepaid expenses	2,144,443	2,277,776
	18,896,392	18,100,252
Capital assets:		
Land	16,627,330	16,565,758
Construction in progress	18,804,138	13,498,536
Buildings	7,899,257	7,906,484
Improvements other than buildings	307,565,085	299,087,942
Machinery and equipment	62,278,569	67,525,391
Less accumulated depreciation	(181,924,750)	(170,432,509)
Total capital assets	231,249,629	234,151,602
Total noncurrent assets	250,146,021	252,251,854
Total Assets	$ 333,754,147	$ 330,743,909
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	777,990	-
Total deferred outflows of resources	$ 777,990	$ -

See accompanying notes to basic financial statements.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Net Position
September 30, 2013 and 2012

	2013	2012
LIABILITIES		
Current liabilities:		
Accounts payable	$ 808,066	$ 2,360,782
Accrued liabilities	1,516,859	1,098,347
Accrued interest payable	1,661,760	1,989,272
Due to other funds	12,710,014	11,959,563
Customer deposits	6,346,891	5,807,440
Compensated absences	1,643,954	1,585,416
Leases payable	5,143	180,722
Bonds payable	12,295,706	16,291,725
Total current liabilities	36,988,393	41,273,267
Noncurrent liabilities:		
Compensated absences	1,693,696	1,509,596
Post employment benefits	4,981,673	3,741,603
Net pension obligation	2,165,907	2,146,732
Leases payable	22,206	27,349
Bonds payable	117,143,959	114,733,422
Total noncurrent liabilities	126,007,441	122,158,702
Total Liabilities	162,995,834	163,431,969
NET POSITION		
Net investment in capital assets	105,147,115	105,432,338
Restricted for:		
Debt Service	12,305,835	11,183,220
Unrestricted	54,083,353	50,696,382
Total Net Position	$ 171,536,303	$ 167,311,940

See accompanying notes to basic financial statements.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Revenues, Expenses, and Changes in Net Position
For The Years Ended September 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Charges for services	$ 213,215,773	$ 189,882,643
Provision for bad debts	(559,665)	(674,121)
Total Operating Revenues	212,656,108	189,208,522
OPERATING EXPENSES		
Personal services	20,319,811	17,668,284
Supplies	1,690,974	1,529,028
Maintenance	3,591,927	4,732,419
Purchase of fuel and power	136,562,687	125,922,551
Other services and charges	7,450,505	4,543,992
Depreciation and amortization	20,563,175	21,357,658
Total Operating Expenses	190,179,079	175,753,932
Operating income	22,477,029	13,454,590
NON-OPERATING REVENUES (EXPENSES)		
Interest income	31,706	126,640
Disposition of assets	(44,617)	79,770
Miscellaneous	380,211	636,025
IRS Build America Bond Subsidy	10,276	-
Interest expense on bonds	(4,873,027)	(5,290,534)
Total non-operating revenues (expenses)	(4,495,451)	(4,448,099)
Income before contributions and transfers	17,981,578	9,006,491
Capital contributions	73,865	46,434
Transfers out	(13,394,793)	(12,296,061)
Change in net position	4,660,650	(3,243,136)
Net Postion - Beginning	167,311,940	170,555,076
Change in Accounting Principle	(436,287)	-
Net Position - Beginning, As Restated	166,875,653	170,555,076
Net Position - Ending	$ 171,536,303	$ 167,311,940

See accompanying notes to basic financial statements.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Cash Flows
For The Years Ended September 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 202,881,450	$ 191,386,954
Payments to suppliers	(147,596,506)	(132,891,120)
Payments to employees	(20,319,811)	(17,668,284)
Other receipts	390,487	636,025
Net cash provided by operating activities	35,355,620	41,463,575
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers out to other funds	(13,394,793)	(12,296,061)
Net cash used by noncapital and related financing activities	(13,394,793)	(12,296,061)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(17,579,870)	(26,143,871)
Sale of capital assets	346,947	390,381
Principal paid on capital leases	(180,722)	(659,152)
Principal paid on bonds	(16,409,267)	(10,709,760)
Issuance of bonds	14,620,123	-
Bond issuance costs	(311,119)	-
Interest paid on bonds and capital leases	(5,900,035)	(6,195,112)
Net cash used by capital and related financing activities	(25,413,943)	(43,317,514)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	28,560,168	43,743,728
Purchase of investments	(24,349,515)	(27,244,322)
Interest earnings on cash and investments	20,272	128,114
Net cash provided by investing activities	4,230,925	16,627,520
Net increase in cash and cash equivalents	777,809	2,477,520
Cash and cash equivalents - beginning of year	9,210,713	6,733,193
Cash and cash equivalents - end of year	$ 9,988,522	$ 9,210,713
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	22,477,029	13,454,590
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	20,563,175	21,357,658
Other income	390,487	636,025
Change in current assets and liabilities:		
Accounts receivable	(9,774,658)	2,178,432
Inventory	42,006	37,664
Accounts payable	(1,552,716)	1,490,254
Due to others	750,451	17,789
Other accrued expenses	418,512	(164,870)
Customer deposits	539,451	730,421
Compensated absences and retirement benefits	1,501,883	1,725,612
Net cash provided by operating activities	$ 35,355,620	$ 41,463,575
Supplemental cash flow information:		
Noncash capital contributions	$ 73,865	$ 46,434

See accompanying notes to basic financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Matters

The accompanying financial statements include only Lubbock Power & Light (LP&L), an enterprise fund of the City of Lubbock, Texas (City). LP&L'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 (CAFR); LP&L has no component units in its reporting entity. The City also administers other departments, whose operations are reflected in the City's CAFR.

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. 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 the governance and management of LP&L in providing dependable and reliable electric service at reasonable and competitive rates to the citizens of Lubbock while being financial self-sustaining.

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). On October 29, 2010, LP&L purchased the majority of Southwestern Public Service Company's (SPS – a subsidiary of Xcel Energy) Lubbock distribution assets for $87,754,858. Xcel Energy's and South Plains Electric Cooperative, Inc.'s current certificated areas include parts of the City that LP&L either does not serve or has small overlaps which are dually certificated areas.

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 (Cities) 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 of the Cities. One member is elected as the president, who 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 position represents constraints on resources that are imposed by bond indentures and may be utilized only for the purposes established by the bond indentures. Unrestricted net position 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 position might be used to meet an obligation, LP&L first uses the restricted net position.

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 Funds, and securities issued by the Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), and Federal National Mortgage Association (FNMA). 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
Trade 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. For fiscal year 2013 there was an additional accrual of $3.3 million for unbilled revenues. Both accruals represent unbilled consumption from fiscal year 2013. LP&L does not require collateral to support its trade receivables. Management believes the recorded receivables, net of allowances of $3,222,125, are collectible.

B. Significant Accounting Policies (continued)

Inventories
Inventories consist of expendable supplies held for consumption. Inventories are valued using the average cost method of valuation, and are accounted for using the consumption method of accounting, e.g., 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	Buildings	15-50 years
Vehicles	5 - 9 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 Statement of Financial Accounting Standards 34, codified in FASB Accounting Standard Codification 835. LP&L capitalized interest of approximately $180,907 net of interest earned during the fiscal year (FY) 2013 and $93,597 net of interest earned during the FY 2012.

Net Position
Net position consists of the following: Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position includes noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or donors external to LP&L and the City, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position includes remaining assets and deferred outflows less remaining liabilities that do not meet the definition of net investment in capital assets, restricted expendable or restricted nonexpendable.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows 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.

B. Significant Accounting Policies (continued)

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

In FY 2013, LP&L implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement introduces and defines those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period. This statement amends the net asset reporting requirements in Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis-for Local Governments", and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. LP&L implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Per GASB statement No. 65, bond issuance costs, excluding bond insurance costs which should be treated as a prepaid asset, are to be recognized in the period of the debt issue. This resulted in a restatement of previously reported net position, totaling $436,287.

The GASB has issued the following statements which LP&L has not yet adopted and which require adoption subsequent to September 30, 2013:

- 67 Financial Reporting for Pension Plans
- 68 Accounting and Financial Reporting for Pensions
- 69 Government Combinations and Disposals of Government Operations
- 70 Accounting and Financial Reporting for Nonexchange Financial Guarantees
- 71 Pension Transition for Contributions Made Subsequent to the Measurement Date

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. LP&L only has one item that qualifies for reporting in that category, deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reaquisition price. This amount is deferred or amortized over the shorter of the life of the refunded or refunding debt.

B. Significant Accounting Policies (continued)

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. LP&L has no items for reporting in that category.

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 the 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 pools its monies with the City, and the City oversees and administers LP&L's investments. The City's Investment Policy requires the minimum collateral level to be 102% of market value of principal and accrued interest.

At September 30, 2013, 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	35,938,001
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the City's name	-
Total	$36,688,001

Interest Rate Risk - As a means of limiting its exposure to fair value losses from increasing interest rates, the City'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. The City'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. The policy 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. The City 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, 2013, Standard & Poor's rated the

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

investment pools and the money market mutual funds utilized by the City as 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 City's Audit and Investment Committee for investment purposes.

Concentration of Credit Risk – The City 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, 2013, LP&L's investments constituted the following percentages of total investments: State Investment Pools – 81.26%, FHLMC – 6.25%, FFCB – 3.52%, FNMA – 5.34%, and FHLB – 3.48%, Certificate of Deposit - 0.15%.

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, 2013 and 2012, LP&L had the following investments and maturities:

	30-Sep-13			30-Sep-12		
		Maturities in Years			Maturities in Years	
Type	Fair Value	Less Than 1	1-5	Fair Value	Less Than 1	1-5
Certificate of Deposit	$ 101,799	$ 101,799	$ -	$ -	$ -	$ -
Federal Home Loan Banks (FHLB)	2,344,072	-	2,344,072	1,353,538	258,845	1,094,693
Federal Home Loan Mortgage Corp. (FHLMC)	4,210,473	1,111,358	3,099,115	1,469,896	-	1,469,896
Federal National Mortgage Association (FNMA)	3,602,734	-	3,602,734	2,774,855	-	2,774,855
Federal Farm Credit Bank (FFCB)	2,373,439	-	2,373,439	2,156,345	-	2,156,345
State Investment Pools *	44,772,388	44,772,388	-	53,860,924	53,860,924	-
Total **	$ 57,404,905	$ 45,985,545	$ 11,419,360	$ 61,615,558	$ 54,119,769	$ 7,495,789

* 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, 2013 and 2012, LP&L had no internal financing.

Transfers out of $13,394,793 for FY 2013 from LP&L to other City funds are the result of 1) General Fund indirect cost allocations, of $1,024,610; 2) payments to WTMPA for management and administration, of $357,882; 3) City franchise fee equivalents of $9,866,734; 4) Payment in lieu of taxes of $1,973,347; and 5) Equity Transfer to General Fund of $172,220.

Transfers out of $12,296,061 for FY 2012 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; and 4) Payment in lieu of taxes of $1,821,042.

LP&L purchased a portion of WTMPA's purchased power for 2013 and 2012, totaling $136,248,487 and $125,794,279 respectively. LP&L also pays WTMPA an overhead fee.

NOTE 4: INVENTORY

The inventory at September 30, 2013 and 2012 was comprised of repair parts valued at $128,665 and $170,671, respectively.

NOTE 5: PREPAID EXPENSES

The total prepaid expenses, included in noncurrent assets, of $2,144,443 in 2013 and $2,277,776 in 2012 represent an advertising contract with Texas Tech University. The amortization began when the United Spirit Arena opened in FY 2000 and is for a total of thirty years.

NOTE 6: GOODWILL

The goodwill book value of $1,859,604 in 2013 and $2,125,302 in 2012 represents the excess unamortized purchase price over the estimated value of capital assets purchased from SPS. The goodwill is amortized over a 10-year period.

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013 follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets not being depreciated:				
Land	$ 16,565,758	$ 73,865	$ 12,293	$ 16,627,330
Construction in Progress	13,498,536	15,508,749	10,203,147	18,804,138
Total Capital Assets not being depreciated	30,064,294	15,582,614	10,215,440	35,431,468
Capital Assets being depreciated:				
Buildings	7,906,484	-	7,227	7,899,257
Improvements Other than Buildings	299,087,942	11,264,241	2,787,098	307,565,085
Machinery & Equipment	67,525,391	1,010,025	6,256,847	62,278,569
Total Capital Assets being depreciated	374,519,817	12,274,266	9,051,172	377,742,911
Less Accumulated depreciation for:				
Buildings	3,850,587	199,408	7,696	4,042,299
Improvements Other than Buildings	129,964,010	17,339,215	2,066,773	145,236,452
Machinery & Equipment	36,617,912	2,625,521	6,597,434	32,645,999
Total Accumulated Depreciation	170,432,509	20,164,144	8,671,903	181,924,750
Capital Assets being depreciated, Net	204,087,308	(7,889,878)	379,270	195,818,161
Capital Assets, Net	$234,151,602	$ 7,692,736	$10,594,709	$231,249,629

NOTE 7: CAPITAL ASSETS (continued)

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	23,959,132	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	$ 24,703,502	$ 19,782,433	$234,151,602

NOTE 7: CAPITAL ASSETS (continued)

Construction Commitments

LP&L has active construction projects at fiscal year end. Projects include the continued construction of distribution lines, substation expansion and electric system improvements.

LP&L Construction Commitments at September 30, 2013

Original Commitments	Spent-to-Date	Remaining Commitments
$54,280,935	$40,784,260	$13,496,675

NOTE 8: RETIREMENT PLAN

The City participates in the Texas Municipal Retirement System (TMRS) for its retirement plan. Each qualified employee of LP&L 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. 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 TMRS. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The adopted plan provisions were as follows:

	Plan Year 2012	Plan Year 2013
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.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City 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, 2012 valuation is effective for rates beginning January 1, 2014). The annual pension cost and net pension obligation are as follows:

Annual Required Contribution (ARC)	$3,148,200
Interest on Net Pension Obligation	157,926
Adjustments to the ARC	(138,751)
Annual Pension Cost (APC)	3,167,375
Contributions Made	(3,148,200)
Increase in net pension obligation	19,175
Net Pension Obligation, beginning of year	2,146,732
Net Pension Obligation, end of year	$2,165,907

NOTE 8: RETIREMENT PLAN (continued)

Actuarial Assumptions

The required contribution rates for FY 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest valuation, December 31, 2012, also follows:

Valuation Date	12/31/10	12/31/11	12/31/12
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	27 years; closed period	26.1 years; closed period	25.1 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-yr Smoothed Mkt	10-yr Smoothed Mkt	10-yr Smoothed Mkt
Actuarial Assumptions:			
Investment Rate of Return	7.0%	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%

Three-Year Trend Information

As of September 30	Annual Pension Cost	Percentage Of APC Made	Net Pension Obligation
2011	$2,537,758	67.7	$1,984,527
2012	3,177,780	94.9	2,146,732
2013	3,167,375	99.4	2,165,907

Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the City's plan was 82.4 percent funded. The actuarial accrued liability for benefits was $549.8 million, and the actuarial value of assets was $453.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $96.8 million. The covered payroll (annual payroll of active employees covered by the plan) was $83.4 million, and the ratio of the UAAL to the covered payroll was 116.2 percent. LP&L's calculated amounts are presented in the accompanying Required Supplementary Information.

NOTE 8: RETIREMENT PLAN (continued)

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's OPEB, described as follows: The City 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 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 664 active participants who pay monthly premiums between $362/$22 (medical/dental) for single coverage and $829/$49 (medical/dental) for family coverage, pre-65. For post-65, monthly premiums are $196/$22 (medical/dental) for single coverage and $587/$49 (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.

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (continued)

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	$1,704,608
Interest on net OPEB obligation	168,457
Adjustment to the ARC	(156,073)
Annual OPEB Cost	1,716,992
Total annual employer contribution (pay-as-you-go)	(476,922)
Increase in net OPEB obligation	1,240,070
Net OPEB obligation – beginning of year	3,741,603
Net OPEB obligation – end of year	$4,981,673

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2011	$1,361,322	44.5%	$2,548,040
09/30/2012	1,690,585	29.4%	3,741,603
09/30/2013	1,716,992	27.8%	4,981,673

Funded Status and Funding Progress: As of October 1, 2011, the most recent actuarial valuation date, the plan was not funded. The City's 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 $108,102087 and the ratio of the UAAL to the covered payroll was 142.7 percent. LP&L's percentage of the ARC 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 UAAL of $19,176,542. The covered payroll (annual payroll of active employees covered by the plan) was $13,437,089, and the ratio of the UAAL to the covered payroll was 142.7 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.

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (continued)

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's 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 Basic Financial Statements.

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:

Average Interest Rate	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-13*	Balance Outstanding 9-30-12**
4.60	08-15-03	04-15-23	$ 8,900,000	$ 0	$ 5,640,000
4.60	08-15-03	04-15-23	13,270,000	0	610,000
3.89	02-15-05	04-15-25	23,055,000	3,255,000	11,435,000
4.26	08-15-05	02-15-25	2,670,000	575,000	1,985,000
4.58	04-15-06	02-15-26	6,077,282	3,980,000	4,916,320
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	10,491,086	10,996,276
4.42	04-15-08	08-15-27	6,498,295	5,485,154	5,724,614
4.53	03-01-09	08-15-29	6,936,647	6,119,779	6,369,627
2.70	02-15-10	02-15-30	5,410,997	4,897,015	5,115,464
5.67	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
1.61	04-15-13	4-15-21	5,990,000	5,990,000	0
1.76	04-15-13	04-15-24	2,585,000	2,585,000	0
Total			$102,932,323	$51,740,478	$61,154,745

* Balance outstanding excludes ($722,254) of discounts and deferred losses and $1,799,266 of premiums.
** Balance outstanding excludes ($1,159,002) of discounts and deferred losses and $1,938,195 of premiums.

At September 30, 2013, LP&L management believes it was in compliance with all financial bond covenants on outstanding general obligation bonded debt, certificates of obligation, and revenue bonds.

Electric Revenue Bonds

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-13*	Balance Outstanding 9-30-12**
4.00 to 5.25	7-01-01	4-15-21	$ 9,200,000	$ 0	$ 4,140,000
2.45	10-15-10	4-15-20	73,295,000	53,195,000	59,580,000
1.90	4-15-13	2-15-24	16,570,000	16,570,000	0
Total			$ 99,065,000	$ 69,765,000	$ 63,720,000

* Balance outstanding excludes $6,079,185 of net deferred losses on advance refundings, bond premiums and discounts.
** Balance outstanding excludes $5,371,209 of net deferred losses on advance refundings, bond premiums and discounts.

NOTE 11: LONG-TERM LIABILITIES (continued)

The annual requirements to amortize LP&L's outstanding debt are as follows:

Fiscal Year	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest
2013-14	$ 4,045,706	$ 2,234,802	$ 8,250,000	$ 2,890,312
2014-15	4,195,805	2,046,977	8,475,000	2,654,650
2015-16	2,969,616	1,853,781	8,775,000	2,325,050
2016-17	3,251,695	1,722,608	9,165,000	1,917,800
2017-18	4,611,806	1,576,828	9,550,000	1,511,650
2019-23	19,240,276	5,455,886	24,765,000	2,184,850
2024-28	12,038,995	1,672,748	785,000	39,250
2029-30	1,386,579	52,068	-	-
Totals	$ 51,740,478	$ 16,615,698	$ 69,765,000	$ 13,523,562

The annual requirements for capital leases as of September 30, 2013, including interest payments of $2,356, are as follows:

Fiscal Year	Capital Lease Minimum Payment
2013-14	$ 5,941
2014-15	5,941
2015-16	5,941
2017-18	5,941
2018-19	5,941
Less:	
Interest	(2,356)
Net Present Value of Minimum Lease Payments	$ 27,349

The carrying values of the leased assets of LP&L as of September 30, 2013 are as follows:

	Gross Value	Accumulated Depreciation	Net Book Value
LP&L Capital Leased Assets	$4,646,487	$3,820,505	$825,982

NOTE 11: LONG-TERM LIABILITIES (continued)

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2013 and 2012 are as follows:

Fiscal Year 2013	**Balance 9/30/2012**	**Additions**	**Deletions**	**Balance 9/30/2013**	**Due in one year**
LP&L activities:					
General Obligation Bonds	$61,933,938	$9,354,842	$17,693,300	$53,595,480	$4,045,706
Revenue Bonds	69,091,209	17,726,653	10,973,677	75,844,185	8,250,000
Capital Leases	208,071	-	180,722	27,349	5,143
Compensated Absences	3,095,012	1,828,054	1,585,416	3,337,650	1,643,954
Other Post Employment Benefits	3,741,603	1,240,070	-	4,981,673	-
Net Pension Obligation	2,146,732	19,175	-	2,165,907	-
Total LP&L activities	$140,216,565	$30,168,794	$30,433,115	$139,952,244	$13,944,803

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

Proceeds from the sale of Certificates are used for the purpose of paying contractual obligations incurred for various electric system 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 May 2013 the City issued $16,570,000 Electric Light and Power System Revenue Refunding and Improvement Bonds, Series 2013 (Bonds), with interest rates from .75 percent to 5.00 percent. The Bonds were issued at a premium of $1,373,654 and deferred loss on refunding of $217,001. $14,020,000 of the proceeds of the sale of the Bonds will be used for the purpose of paying contractual obligations to be incurred for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for the electric system. The remaining $3,706,653 of the proceeds was used to current refund a portion of the City's outstanding indebtedness for the purpose of achieving debt service savings. The refunding portion of the bonds refunded $3,680,000 of outstanding debt. As a result of the current refunding the City decreased total debt service requirements by $563,633, which resulted in an accounting loss of $161,531 and an economic gain of $523,384, or a 14.22 percent savings on refunded bonds.

NOTE 11: LONG-TERM LIABILITIES (continued)

In May 2013, the City issued $39,705,000 General Obligation Refunding Bonds Taxable, Series 2013, with interest rates ranging from .25% to 3.00% with LP&L's portion being $5,990,000 with a premium of $4,081 and incurred issuance costs of $301,563 balances at year end. The net proceeds were deposited with the Escrow Agent in an amount necessary to accomplish, on their scheduled redemption date, the discharge and final payment on the refunded bonds. These funds will be held by the Escrow Agent in a special escrow fund and used to purchase direct obligations of the United States of America. Under the escrow agreements between the City and the Escrow Agent, the escrow funds are irrevocably pledged to the payment of principal and interest on the refunded bonds. As a result of the refunding, the City decreased total debt service requirements and achieved a 10.23% savings on refunded bonds. The debt will be legally defeased in 2015.

In May 2013, the City issued $42,075,000 General Obligation Refunding and Improvement Bonds, Series 2013, with interest rates ranging from 2.00% to 5.00%. $34,535,000 of the $42,075,000 was for refunding debt with a true interest cost of 1.76%. Of the $34,535,000, LP&L's portion was $2,585,000 with a premium of $428,516 and a deferred gain of $5,818 balances at year end. The proceeds were used to advance refund a portion of the LP&L's outstanding indebtedness for the purpose of achieving debt service savings. The net proceeds were deposited with the Escrow Agent in an amount necessary to accomplish, on their scheduled redemption date, the discharge and final payment on the refunded bonds. These funds will be held by the Escrow Agent in a special escrow fund and used to purchase direct obligations of the United States of America. Under the escrow agreements, between the City and the Escrow Agent, the escrow funds are irrevocably pledged to the payment of principal and interest on the refunded bonds. As a result of the refunding, The City decreased total debt service requirements and achieved an 11.01% savings on refunded bonds. The debt will be legally defeased in 2016.

NOTE 12: RISK MANAGEMENT

The Risk Management Fund of the City accounts for liability and worker's compensation claims, and premiums for property/casualty insurance coverage. The Risk Management Fund generates its revenue through charges to other departments, including LP&L, 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 an 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.

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

NOTE 12: RISK MANAGEMENT (continued)

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. 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 its 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 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 $1.42 million at September 30, 2013 for all health insurances including medical, prescription drugs, and dental which is recorded as an accrued liability in the City's Statement of Net Position. 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.

NOTE 13: HEALTH INSURANCE (continued)

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.

Akeelah Lockett Demand Letter
On June 6, 2013, Akeelah Lockett entered a LP&L electrical box and incurred burns from making contact with live electrical equipment inside the box. On October 2, 2013, M. Lockett's attorney sent the City of Lubbock and LP&L a demand letter in which he seeks seven million six hundred fifty thousand dollars ($7,650,000). To date, a claim has not been filed.

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). 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. A loss, if any, cannot be estimated at this time.

The City will assert any and all applicable legal defenses, file the necessary dispositive motions, and try each case if necessary. No liabilities have been recorded at year end.

NOTE 15: SITE REMEDIATION

LP&L follows GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. LP&L contracts with eHT/Enprotec to conduct the necessary remediation activities required. Activities have been approved by the Texas Commission on Environmental Quality (TCEQ). The potential exposure is estimated as of September 30, 2013, and the expected remaining liability is $169,000 as recorded in accrued liabilities on the Statement of Net Position.

LP

Lubbock Power and Light
Required Supplementary Information
Schedule of Funding Progress
For the Year Ended September 30, 2013

LP&L's TMRS 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
2012	65,226,442	79,170,372	82.4%	13,943,930	12,004,109	116.2

*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%; 2012, 14.41%; and 2013, 14.40%.
**Based on Fiscal Years converted to Calendar Years.

Citywide Texas Municipal Retirement System (TMRS) and 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
12/31/12	TMRS	452,961,401	549,794,250	96,832,849	82.4	83,361,865	116.2
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	-	108,102,087	142.7

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.

LP

Acknowledgements

LP&L would like to thank the City of Lubbock Accounting Department for their assistance in preparing the FY 2012-13 LP&L Annual Financial Report. Preparation of this report would not have been possible without the timely cooperation and assistance of the following individuals:

Pamela Moon, CPA	Executive Director of Finance
Brack Bullock	Accounting Supervisor
Linda Cuellar, CPA	Accounting Supervisor
Veronica Valderaz	Senior Accountant
Deborah Hansard	Senior Accountant

Lubbock Power & Light
The power is yours.
P O Box 10541 ■ Lubbock, TX 79408-3541 ■ (806) 775-2509
www.LPandL.com