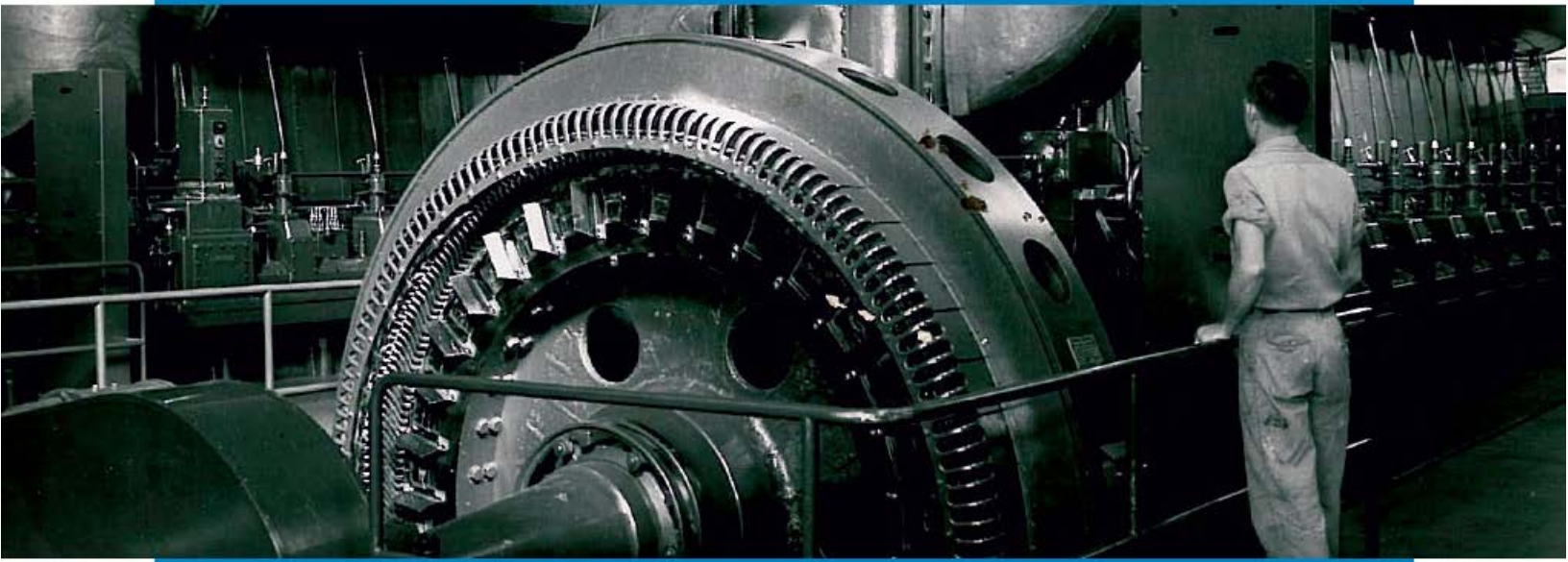




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Annual Financial Report

Fiscal Years Ended September 30, 2014 and 2013



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Annual Financial Report
For the Fiscal Years Ended September 30, 2014 and 2013

Annual Financial Report

Elected, Appointed and Principal Officials

City Council

Glen C. Robertson	Mayor
Jim Gerlt	Mayor Pro Tem – District 4
Victor Hernandez	Council Member – District 1
Floyd Price	Council Member – District 2
Jeff Griffith	Council Member – District 3
Karen Gibson	Council Member – District 5
Latrell Joy	Council Member – District 6

Electric Utility Board

Greg Taylor	Chair
Jerry Bell	Vice Chair
James Conwright	Secretary
Don Boatman	Board Member
Charles Dunn	Board Member
Jane U. Henry	Board Member
Stephanie Hill	Board Member
Clayton Isom	Board Member
Drew Tucker	Board Member
Glen C. Robertson	Ex-Officio Member

Principal Officials

David McCalla	Director of Electric Utilities
Richard Casner	General Counsel – LP&L
Andy Burcham	Chief Financial Officer
Steve Comey	Distribution Superintendent
James Gilmore	Production Superintendent
Chad Sales	Financial Planning and Analysis Manager



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Annual Financial Report

For the Fiscal Years Ended September 30, 2014 and 2013

Table of Contents

Introduction	1
Independent Auditor's Report	3
Management's Discussion and Analysis	5
Statements of Net Position	19
Statements of Revenues, Expenses, and Changes in Net Position	21
Statements of Cash Flows	22
Notes to Basic Financial Statements	
Note 1: Summary of Significant Accounting Policies	23
Note 2: Deposits and Investments	27
Note 3: Interfund Transactions	29
Note 4: Inventory	29
Note 5: Prepaid Expenses	29
Note 6: Goodwill	29
Note 7: Capital Assets	30
Note 8: Retirement Plan	32
Note 9: Other Post-Employment Benefits	35
Note 10: Deferred Compensation	37
Note 11: Long-Term Liabilities	38
Note 12: Risk Management	41
Note 13: Health Insurance	43
Note 14: Litigation	43
Note 15: Site Remediation	43
Required Supplementary Information (unaudited)	45

**Lubbock Power and Light
City Electric System
Introduction
For the Years Ended September 30, 2014 and 2013**

Lubbock Power and Light (LP&L) is pleased to present its Basic Financial Statements for the fiscal years ended September 30, 2014 and 2013. 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.



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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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.

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 16, 2015

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

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, 2014 (FY 2014), compared to the fiscal years ended September 30, 2013 (FY 2013) and September 30, 2012 (FY 2012). This MD&A has been prepared in accordance with Governmental Accounting Standards Board (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, 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, inventories, interest receivable and prepayments. Noncurrent assets include investments that have been restricted by state laws, ordinances, or contracts; prepayments; goodwill; and net capital assets.

Consistent with the reporting of assets, liabilities are segregated into current and noncurrent categories. Current liabilities include the current maturities of debt; the due to West Texas Municipal Power Agency (WTMPA); customer deposits; compensated absences; interest payable; accrued liabilities and accounts payable. Noncurrent liabilities include net long-term debt, net other postemployment benefits (OPEB), pension obligations, and compensated absences.

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

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

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, non-capital, financing, capital and related financing, 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

Purchased Power Pass-Through Rate Stability – In December 2013, the Electric Utility Board (Board) and the City Council passed an amendment to the LP&L Rate Tariff that provides for the recovery of all purchased power costs incurred by LP&L in serving system demand and energy requirements. The amendment adopted a seasonal purchased power recovery factor (PPRF) which is scheduled to be adjusted a minimum of two times per year, once during the summer season of June through September and once during the non-summer season of October through May.

The PPRF is established with the intention of matching the pass-through revenues with actual purchased power costs over the course of a fiscal year, giving consideration to seasonal fluctuations in load and in purchased power prices. The amendment allows for the PPRF to be adjusted more frequently if any over- or under-recovery exceeds the pre-defined maximum variance.

A balancing account was also established, with a cap of five percent of total annual forecasted purchased power costs, to manage the monthly over- or under-recovery of monthly purchased power costs. If at any time the cumulative balance is greater than the balancing account cap, an adjustment may be made to the PPRF with the intention of refunding the over-recovered amount. Additionally, if at any time the cumulative balance approaches zero or is less than zero, an adjustment may be made to the PPRF with the intention of replenishing the rate stabilization fund.

LP&L tracks actual revenues collected from the PPRF and compares these revenues to the actual purchased power costs incurred each month. The cumulative balance is reported to the Board on a monthly basis. As of September 30, 2014, the purchased power costs exceeded metered revenues by approximately \$4.9 million. Based on LP&L's current forecast, the under-recovery will be collected by the end of the non-summer season (by May 2015) and a PPRF adjustment should not be necessary. The revenues that will be collected in FY 2015, that are related to the under-recovery, have been accrued in FY 2014.

Rate Adjustment – Rates are set by the Board and approved by the City Council. On May 9, 2013, the City Council approved a 9.7 percent adjustment to LP&L's electric rates, which became effective on June 1, 2013. The 9.7 percent rate adjustment was the average change in all rate classes, and was

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

the amount necessary to meet the revenue requirements as calculated by the long-term financial model. This rate adjustment impacted FY 2014 revenues as anticipated in the FY 2014 operating budget.

Capital Program – A total of 17 new capital projects and 14 existing capital projects were funded during FY 2014. The total estimated costs of these projects was \$32.2 million. The blend of funding sources used for these projects was composed of 36.2 percent equity and 63.8 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 land acquisition for substations, totaling \$2.0 million; distribution transformers, totaling \$2.4 million; underground lines, totaling \$2.4 million; overhead lines, totaling \$1.5 million; and scheduled repairs at the Brandon production facility, totaling \$3.5 million.

A total of 37 capital projects were completed and closed in FY 2014 and were moved from construction in progress to the appropriate capital asset category. The significant projects completed in FY 2014 included:

- Southeast Substation (\$3.8 million) – the construction of a new 115/69 kV to 12kV substation for service to South and Southeast Lubbock in order to provide continued reliability in the distribution network.
- Underground Distribution (\$2.4 million) – the installation of underground primary and/or secondary lines used to provide electric service to new customers.
- Information System Migration/Telephone Technology (\$1.6 million) – the upgrade of the utility billing and collection client server software to a more current web-based version of the product that includes numerous functional and technical improvements.
- Overhead Distribution (\$1.5 million) – the upgrade or line extension of overhead primary and/or secondary upgrades to serve electric customers.
- Transformer Replacement (\$0.8 million) – the replacement of an existing transformer with a larger capacity transformer and the energizing of two existing 12kV circuits.

Debt Issuance – In FY 2014, LP&L issued \$16.25 million in revenue bonds. The Bonds that were issued funded capital projects in the FY 2014 Capital Program. The Bonds were issued at a premium (\$1.33 million) and the true interest cost for this issuance was 3.09 percent. The City also issued advance refunding bonds, with LP&L's share being \$4.515 million. The refunding transactions resulted in decreased total debt service requirements with over 8.7 percent savings on the refunded bonds. The true interest cost for these issues was 2.63 percent.

Meter Growth – LP&L's meter base totaled 102,079 and 101,416 meters at September 30, 2014 and 2013, respectively. The 2014 meter increase of 0.65 percent, and the 2013 increase of 0.87 percent, are modest and consistent with the steady growth within LP&L's certificated area.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

RESULTS OF OPERATIONS

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Program revenues			
Charges for services	\$ 227,244,632	\$ 212,656,108	\$ 189,208,522
General revenues			
Investment earnings	159,777	31,706	126,640
Other revenues	811,144	345,870	715,795
Total revenues	<u>228,215,553</u>	<u>213,033,684</u>	<u>190,050,957</u>
Program expenses (including interest)	<u>209,587,095</u>	<u>195,052,106</u>	<u>181,044,466</u>
Contributions	<u>9,222</u>	<u>73,865</u>	<u>46,434</u>
Excess before transfers	18,637,680	18,055,443	9,052,925
Transfers	<u>(14,181,279)</u>	<u>(13,394,793)</u>	<u>(12,296,061)</u>
Change in net position	4,456,401	4,660,650	(3,243,136)
Net position, beginning of year *	<u>171,536,303</u>	<u>166,875,653</u>	<u>170,555,076</u>
Net position, end of year	<u>\$ 175,992,704</u>	<u>\$ 171,536,303</u>	<u>\$ 167,311,940</u>

* Restated beginning net position for FY 2013 due to change in GASB pronouncements

Total Revenues and Nonoperating Income

FY 2014 – Program revenues were \$227.2 million, representing a 6.86 percent increase from FY 2013. 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 \$3.79 per one million British thermal units (MMBtu) in October 2013, peaked at \$6.18 per MMBtu in February 2014, and ended FY 2014 at \$4.04 per MMBtu. Since natural gas is the largest driver of purchased power costs, the increase in the price of this commodity impacted program revenues. Additionally, LP&L's nonoperating revenues totaled \$1.0 million for FY 2014, an increase of \$0.6 million.

LP&L purchases 100 percent of its power needs from Southwestern Public Service Company (SPS), a subsidiary of Xcel Energy (Xcel) through a full-requirements contract. LP&L operates three generating assets, which include the Brandon, Massengale, and Cooke stations. The Brandon and Massengale stations were under contract with Xcel in unit contingent agreements until their expiration on August 31, 2013. The Cooke station is under contract with Xcel in a unit contingent agreement until 2019. These agreements produced \$10.8 million in revenue in FY 2014, compared to \$11.3 million in FY 2013.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

FY 2013 – Program 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. Additionally, LP&L's net nonoperating revenues totaled \$0.4 million for FY 2013.

Operating Expenses

FY 2014 – Program expenses, excluding interest expense, were \$205.3 million, representing a 7.95 percent increase from FY 2013. 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, totaling \$153.2 million, represented 74.64 percent of total operating expenses for FY 2014.

Program expenses, excluding purchased power costs and interest expense, totaled \$52.1 million, a decrease of \$1.5 million, or 2.88 percent, compared to FY 2013. Contributing to the decrease was lower maintenance costs and decreased expenses related to chemical and safety supplies. Partially offsetting the decrease was higher costs related to credit card processing fees and expenses for professional services related to the 2019 Capacity and Energy Supply Services Request for Proposal (RFP).

FY 2013 – Program expenses, excluding interest expense, were \$190.2 million, representing an 8.21 percent increase from FY 2012. The increase was due to increased fuel costs which are highly correlated to natural gas prices. Program 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 and unplanned events related to a major storm power outage in June 2013; increased tree-trimming expenses; and a major generator weld repair at Massengale station. Partially offsetting the increase was lower maintenance costs related to the distribution network.

Nonoperating Expenses

FY 2014 – Interest and debt-related expense of \$4.3 million was down \$0.6 million, compared to FY 2013, due to lower bond and master lease interest payments. The master lease was paid in full during FY 2014, which was originally scheduled to be fully amortized by FY 2019.

Transfers to the City totaled \$13.8 million, up from \$12.9 million in FY 2013. 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 2014, these transfers increased accordingly. Additionally, the indirect cost allocation transfer increased \$0.03 million, or 2.77 percent, driven by higher costs associated with the City Manager, City Attorney, City Secretary, and Human Resource departments.

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.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

Transfers to the City totaled \$12.9 million, up from \$11.9 million in FY 2012. The increase in transfers was related to an increased payment in lieu of property tax, an increased payment in lieu of a franchise fee, and an increased indirect cost allocation transfer.

Other Changes in Net Position

FY 2014 – Net position for the years ended September 30, 2014 and 2013 was \$176.0 million and \$171.5 million, respectively.

Net income of \$18.6 million was \$0.6 million higher than the FY 2013 net income of \$18.0 million. Contributing to this variance was an increase in metered revenues totaling \$14.6 million and increases in interest income, disposition of assets and pole rental income totaling \$0.6 million. Decreases in supplies, maintenance, depreciation expense, and interest expense totaling \$3.2 million also increased net income. Decreases to net income included increases in personal services and other services and charges totaling \$1.1 million and a \$16.7 million increase in purchased power costs.

Net transfers, totaling \$14.2 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 \$2.1 million; a payment to the City in lieu of a franchise fee, totaling \$10.6 million; an indirect cost allocation transfer to the City to cover certain administrative costs, totaling \$1.1 million; payments to WTMPA for management and administrative services, totaling \$0.4 million.; a contribution of \$0.3 million of street lights to the City's Governmental Fund; offset by a transfer in of \$0.3 million from the Water fund for the reimbursement of software and personnel costs incurred by LP&L.

LP&L's change in net position was a gain of \$4.5 million compared to a gain of \$4.7 million in FY 2013, reflecting a decrease of \$0.2 million, which was driven primarily by the increase in transfers.

FY 2013 – Net position for the years ended September 30, 2013 and 2012 was \$171.5 million and \$166.9 million (as restated), 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 \$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 due to increased revenues related to the unit contingent contracts on LP&L's generating stations with Xcel.

Transfers, totaling \$13.4 million, were \$1.1 million more than the prior fiscal year mainly due to the higher charges for service as a result of increased fuel-related energy costs.

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 primarily by the increase in net income less the increased amount of transfers.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

FINANCIAL POSITION

Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 92,327,159	\$ 83,608,126	\$ 78,492,055
Capital assets, net	227,652,309	231,249,629	234,151,602
Noncurrent investments	25,420,350	14,892,345	13,697,174
Goodwill	1,593,906	1,859,604	2,125,302
Prepaid expenses	2,011,109	2,144,443	2,277,776
Total assets	<u>349,004,833</u>	<u>333,754,147</u>	<u>330,743,909</u>
Deferred charge on refunding	<u>812,733</u>	<u>777,990</u>	<u>-</u>
Liabilities:			
Current liabilities	43,761,935	36,988,393	41,273,267
Noncurrent liabilities	<u>130,062,927</u>	<u>126,007,441</u>	<u>122,158,702</u>
Total liabilities	<u>173,824,862</u>	<u>162,995,834</u>	<u>163,431,969</u>
Net position:			
Invested in capital assets, net of related debt	109,449,829	105,147,115	105,432,338
Restricted	9,822,504	12,305,835	11,183,220
Unrestricted	<u>56,720,371</u>	<u>54,083,353</u>	<u>50,696,382</u>
Total net position	<u>\$ 175,992,704</u>	<u>\$ 171,536,303</u>	<u>\$ 167,311,940</u>

Current Assets

FY 2014 – Current assets at September 30, 2014, of \$92.3 million were \$8.7 million higher than the balance at September 30, 2013. Cash, cash equivalents, and investment balances increased \$10.3 million due to operating gains and due to a decrease in the transfer to the Capital Program. Customer accounts receivable decreased due to the reduction of \$3.3 million in unbilled revenue discussed below. This decrease was partially offset by an increase in receivables as a result of higher purchased power costs in FY 2014.

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 related to a billing system error 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.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

Noncurrent Assets

FY 2014 – Noncurrent restricted assets totaled \$29.0 million at September 30, 2014, an increase of \$10.1 million compared to September 30, 2013. The increase was largely attributable to an increase in restricted investments as a result of unspent bond proceeds from the Series 2014 issuance.

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.

Capital Assets, Net

FY 2014 – At September 30, 2014, net capital assets of \$227.7 million decreased \$3.6 million from \$231.2 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. The number of miles of distribution lines are now being tracked with geographic information system (GIS) technology. The large increase is due to a more accurate count from the GIS database.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Generating stations	4	4	4
Substations	37	37	37
Miles of distribution lines	7,115	2,202	2,202
Miles of transmission lines	105	105	96

FY 2013 – Capital assets decreased \$2.9 million in 2013 due to the depreciation, or retirement of assets, being greater than the acquisition and development of capital assets.

Current Liabilities

FY 2014 – Excluding current maturities of debt totaling \$13.6 million, current liabilities increased \$5.5 million, from \$24.7 million at September 30, 2013, to \$30.2 million at September 30, 2014. The increased balance was primarily due to a \$5.2 million increase in the Due to Related Party line item related to additional amounts owed to WTMPA as a result of the failure of one of Xcel's current transformers at Doud Substation. Due to the failure of the current transformer, Xcel did not meter WTMPA's usage at that substation for the majority of the fiscal year. Therefore, WTMPA was billed \$6.1 million through September 2014, of which the majority of that charge was LP&L's. Additionally, a \$0.5 million increase in customer deposits contributed to the increase in current liabilities which was partially offset with a \$0.4 million decrease in accounts payable.

FY 2013 – Excluding current maturities of 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

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

increase in WTMPA accounts payable, a \$0.5 million increase in customer deposits, and a \$0.4 million increase in accrued liabilities.

Other Noncurrent Liabilities

FY 2014 – Excluding the noncurrent portion of debt of \$120.2 million, long-term liabilities increased \$1.0 million to \$9.8 million at September 30, 2014, primarily due to a \$1.2 million increase in other post-employment benefits (OPEB) and pension liabilities, offset by a \$0.2 million decrease in compensated absences.

FY 2013 – Excluding the noncurrent portion of debt of \$117.1 million, long-term liabilities increased \$1.4 million to \$8.9 million at September 30, 2013, primarily due to a \$1.3 million increase in other post-employment benefits (OPEB) and pension liabilities.

LONG-TERM DEBT

FY 2014 – At September 30, 2014 LP&L's total outstanding debt was \$133.8 million. Bonds payable was composed of \$47.3 million in certificates of obligation, \$77.8 million in revenue bonds, and \$8.7 million in bond premiums and discounts. All outstanding debt is comprised of fixed interest rate instruments.

New Issuance – In May 2014, LP&L issued \$16.25 million Electric Light and Power Revenue Bonds, Series 2014. The true interest cost for this issuance, which has maturities in 2015 through 2034, is 3.09 percent. Bond proceeds 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.

Advance Refundings – In May 2014, the City issued approximately \$44.9 million General Obligation Refunding Bonds Tax-Exempt Series 2014, with LP&L's portion being \$4.515 million. This refunding transaction resulted in decreased total debt service requirements and an 8.7 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2014 through 2026 is 2.63 percent.

Reductions – In addition to the refundings described above, that resulted in reductions in long-term debt outstanding, LP&L made principal payments of \$8.25 million on its revenue bonds and \$4.09 million on its certificates of obligation.

FY 2013 – At September 30, 2013 LP&L's total outstanding debt was \$129.4 million. Bonds payable 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,

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

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.

CURRENTLY KNOWN FACTS

Future Generation – In FY 2013, 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. Additionally, a 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, and as a result of feasibility studies and analyses conducted in FY 2014, the Electric Utility Board determined that a Request for Proposals (RFP) process be initiated to purchase all or some of the capacity necessary for 2019. In July 2014, LP&L issued an RFP for capacity and energy supply services with responses to the RFP due on October 7, 2014.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

LP&L is expected to make a decision on future capacity and energy supply during the first quarter of 2015.

Rate Increase – Rates are set by the Board and approved by the Lubbock City Council. On September 11, 2014, the City Council approved a 5.75 percent increase in LP&L's electric base rates, which became effective on October 1, 2014. The 5.75 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 long-term financial model.

Unit Contingent Agreements – LP&L operates three generating assets, including the Brandon, Massengale, and Cooke stations, which have historically been dispatched by Xcel. The Brandon and Massengale stations were under contract with Xcel in unit contingent agreements until their expiration on August 31, 2014. The Cooke station is under contract with Xcel in a unit contingent agreement until 2019. These agreements produced \$10.8 million in revenue in FY 2014. For FY 2015, the Cooke unit will continue to be dispatched by Xcel Energy through the existing contract, with anticipated revenues totaling \$3.4 million. However, it is currently anticipated that the contracts on the Brandon and Massengale stations will not be renewed with Xcel and that the energy from those units will be sold into the Southwest Power Pool Integrated Marketplace (SPP IM). The adopted operating budget contemplates the reduced revenues from Xcel and new revenues from the SPP IM, therefore the change in operations was anticipated in the operating budget and has been factored into the base rates for FY 2015.

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 2015 as reported by the EIA are as follows:

- Electricity Generation – Generation from coal and natural gas is projected to be 0.5 percent lower and 0.5 percent higher, respectively. This trend reflects the response to lower natural gas prices and retirements of coal-fired power plants.
- Electricity Retail Prices – The higher cost of natural gas in 2014 is the major factor for a projected rise in the price of electricity. The EIA expects electricity prices to average 12.5 cents per kilowatt hour (kWh) for calendar year 2015, which is a 3.0 percent increase over 2014.
- Natural Gas Prices – The EIA expects the Henry Hub natural gas spot price to average \$3.83 per MMBtu in calendar year 2015 compared with \$4.44 per MMBtu in calendar year 2014 and \$3.84 per MMBtu in calendar year 2013.
- Coal Prices – According to the EIA, higher electricity demand and embedded higher power sector natural gas prices are contributing to an increase in electric power sector coal consumption in 2014. Power sector coal consumption is projected to fall by 0.4 percent in 2015, as retirements of coal plants rise in response to the implementation of the Mercury and Air Toxics Standards. The annual average coal price to the electric power industry fell from a historically high \$2.39/MMBtu in 2011 to \$2.35/MMBtu in 2013. EIA expects the average delivered coal price to be \$2.36/MMBtu in 2014 and remain at that level in 2015.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

- Generation Mix – LP&L is in the Southwest Power Pool (SPP) which maintained the following generation mix in each of the following time periods:

	12/31/2014	CY 2013	CY 2012
Coal	60.5%	65.0%	35.0%
Natural gas	14.5%	19.0%	49.0%
Dual fuel	0.2%	0.0%	0.0%
Wind	21.4%	7.0%	11.0%
Hydro	0.5%	<1.0%	1.0%
Nuclear	2.9%	9.0%	4.0%
Pumped storage/biomass	0.0%	0.0%	0.0%
	100%	100%	100%

GASB Implementations – The following guidance issued by the GASB is expected to be effective for FY 2015:

- In FY 2015 the City will implement GASB Statements No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The effects of implementing this statement are expected to have a material effect on net position. LP&L will be required to recognize the Net Pension Liability on the Statement of Net Position. This number is projected to be equal to the Unfunded Accrued Actuarial Liability based on the market value of the assets. LP&L will also be required to recognize a new measure of the pension expense, which will be different from our actuarially determined contributions (annual required contributions). Note disclosures and required supplementary information will be based on the new measures.

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

There are also pending federal electric reliability regulations pertaining to high voltage electric transmission lines and equipment. These pending regulations 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.

While many of these rules are still being defined, LP&L is continually monitoring the requirements of each to assess the impact. LP&L 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 regulatory compliance specialists on staff to coordinate environmental and electric reliability compliance efforts.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2014 and 2013**

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, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 10,463,109	\$ 9,988,522
Investments	52,349,133	42,512,560
Accounts receivables, net	29,337,541	30,931,472
Interest receivable	33,080	21,907
Prepaid expenses	25,000	25,000
Inventories	119,296	128,665
Total current assets	<u>92,327,159</u>	<u>83,608,126</u>
Noncurrent assets:		
Restricted investments	25,420,350	14,892,345
Goodwill	1,593,906	1,859,604
Prepaid expenses	2,011,109	2,144,443
	<u>29,025,365</u>	<u>18,896,392</u>
Capital assets:		
Land	16,613,202	16,627,330
Construction in progress	16,074,101	18,804,138
Buildings	8,506,237	7,899,257
Improvements other than buildings	316,031,146	307,565,085
Machinery and equipment	68,872,059	62,278,569
Less accumulated depreciation	<u>(198,444,436)</u>	<u>(181,924,750)</u>
Total capital assets	<u>227,652,309</u>	<u>231,249,629</u>
Total noncurrent assets	<u>256,677,674</u>	<u>250,146,021</u>
Total Assets	<u>\$ 349,004,833</u>	<u>\$ 333,754,147</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	<u>\$ 812,733</u>	<u>\$ 777,990</u>
Total Deferred Outflows of Resources	<u>\$ 812,733</u>	<u>\$ 777,990</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statements of Net Position
September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 454,485	\$ 808,066
Accrued liabilities	1,468,230	1,516,859
Accrued interest payable	1,738,112	1,661,760
Due to related party	17,887,553	12,710,014
Customer deposits	6,899,663	6,346,891
Compensated absences	1,758,087	1,643,954
Leases payable	-	5,143
Bonds payable	13,555,805	12,295,706
Total current liabilities	<u>43,761,935</u>	<u>36,988,393</u>
Noncurrent liabilities:		
Compensated absences	1,459,521	1,693,696
Post employment benefits	6,176,464	4,981,673
Net pension obligation	2,182,421	2,165,907
Leases payable	-	22,206
Bonds payable	120,244,521	117,143,959
Total noncurrent liabilities	<u>130,062,927</u>	<u>126,007,441</u>
Total Liabilities	<u>\$ 173,824,862</u>	<u>\$ 162,995,834</u>
NET POSITION		
Net investment in capital assets	\$ 109,449,829	\$ 105,147,115
Restricted for:		
Debt Service	9,822,504	12,305,835
Unrestricted	56,720,371	54,083,353
Total Net Position	<u>\$ 175,992,704</u>	<u>\$ 171,536,303</u>

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Charges for services	\$ 227,244,632	\$ 212,656,108
OPERATING EXPENSES		
Personal services	20,958,925	20,319,811
Supplies	1,278,463	1,690,974
Maintenance	2,644,851	3,591,927
Purchase of fuel and power	153,230,408	136,562,687
Other services and charges	7,908,213	7,450,505
Depreciation and amortization	19,284,465	20,563,175
Total Operating Expenses	<u>205,305,325</u>	<u>190,179,079</u>
Operating income	<u>21,939,307</u>	<u>22,477,029</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	159,777	31,706
Disposition of assets	104,950	(44,617)
Miscellaneous	696,253	380,211
IRS Build America Bond Subsidy	9,941	10,276
Interest expense on bonds	(4,281,770)	(4,873,027)
Total Non-Operating Revenues (Expenses)	<u>(3,310,849)</u>	<u>(4,495,451)</u>
Income before contributions and transfers	<u>18,628,458</u>	<u>17,981,578</u>
Capital contributions	9,222	73,865
Transfers, net	<u>(14,181,279)</u>	<u>(13,394,793)</u>
Change in Net Position	4,456,401	4,660,650
Net Position - Beginning	171,536,303	167,311,940
Change in Accounting Principle	-	(436,287)
Net Position - Beginning, As Restated	<u>\$ 171,536,303</u>	<u>\$ 166,875,653</u>
Net Position - Ending	<u>\$ 175,992,704</u>	<u>\$ 171,536,303</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Cash Flows
For The Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 228,838,563	\$ 202,881,450
Payments to suppliers	(158,633,202)	(147,596,506)
Payments to employees	(20,958,925)	(20,319,811)
Other receipts	706,194	390,487
Net cash provided by operating activities	<u>49,952,630</u>	<u>35,355,620</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	299,111	-
Transfers out to other funds	(14,480,390)	(13,394,793)
Net cash used by noncapital and related financing activities	<u>(14,181,279)</u>	<u>(13,394,793)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(16,030,058)	(17,579,870)
Sale of capital assets	856,117	346,947
Principal paid on capital leases	(26,755)	(180,722)
Principal paid on bonds	(12,340,706)	(16,409,267)
Issuance of bonds	17,768,912	14,620,123
Bond issuance costs	(139,376)	(311,119)
Interest paid on bonds and capital leases	(5,168,924)	(5,900,035)
Net cash used by capital and related financing activities	<u>(15,080,790)</u>	<u>(25,413,943)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	-	28,560,168
Purchase of investments	(20,364,578)	(24,349,515)
Interest earnings on cash and investments	148,604	20,272
Net cash provided (used) by investing activities	<u>(20,215,974)</u>	<u>4,230,925</u>
Net increase in cash and cash equivalents	474,587	777,809
Cash and cash equivalents - beginning of year	9,988,522	9,210,713
Cash and cash equivalents - end of year	<u>\$ 10,463,109</u>	<u>\$ 9,988,522</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	21,939,307	22,477,029
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	19,284,465	20,563,175
Other income	706,194	390,487
Change in current assets and liabilities:		
Accounts receivable	1,593,931	(9,774,658)
Inventory	9,369	42,006
Accounts payable	(353,581)	(1,552,716)
Due to related party	5,177,539	750,451
Accrued liabilities	(48,629)	418,512
Customer deposits	552,772	539,451
Compensated absences and retirement benefits	1,091,263	1,501,883
Net cash provided by operating activities	<u>\$ 49,952,630</u>	<u>\$ 35,355,620</u>
Supplemental cash flow information:		
Noncash capital contributions	\$ 9,222	\$ 73,865

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

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 the City Council to govern, manage, and operate the City's electric utility. 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 financially self-sustaining.

LP&L's product is the generation, distribution, and service of electricity. The market in which it operates is located 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 Lubbock distribution assets for \$87,754,858. The certificated areas of Southwestern Public Service Company (SPS), a subsidiary of Xcel Energy, included parts of the City that LP&L either did not serve or had small overlaps within 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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

B. Significant Accounting Policies

The Basic Financial Statements (BFS) of LP&L are presented on an 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 Mutual Funds, and securities issued by the Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Farm Credit Bank (FFCB), and Municipal Bonds. Restricted investments are investments that have been restricted for bond financed capital projects and debt service.

Trade Receivables

Trade receivables are primarily due from metered customers. Metered revenues for the first fifteen days of the first month after fiscal year-end are accrued and reported in accounts receivables. LP&L does not require collateral to support its trade receivables. Management believes the recorded receivables, net of allowances totaling \$2,005,482, are collectible.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

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	10-60 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 and 62. LP&L capitalized interest of approximately \$263,838 net of interest earned during the fiscal year (FY) 2014 and \$87,021 net of interest earned during the FY 2013.

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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

B. Significant Accounting Policies (continued)

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.

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 2015, LP&L will implement GASB Statements No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The effects of implementing this statement are expected to have a material effect on net position. LP&L will be required to recognize the Net Pension Liability on the Statement of Net Position. This number is projected to be equal to the Unfunded Accrued Actuarial Liability based on the market value of the assets. LP&L will also be required to recognize a new measure of the pension expense, which will be different from our actuarially determined contributions (annual required contributions). Note disclosures and required supplementary information will be based on the new measures.

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 has a deferred charge on a bond refunding, which is the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred or amortized over the shorter of the life of the refunded and new debt.

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.

**Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013**

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. The City'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, 2014, City bank balances exposed to custodial credit risk were as follows:

Insured	\$ 750,000
Uninsured and uncollateralized *	695,194
Uninsured and collateral held by pledging financial institution in the City's name	<u>34,342,354</u>
Total	<u>\$35,787,548</u>

* The WTMPA deposits accounts were insured up to \$250,000, but the excess amounts were uncollateralized.

Interest Rate Risk - As a means of limiting its exposure to fair value losses due to rising interest rates, the City's investment policy limits investments to those that can be held to maturity and by limiting final maturity to no more than five (5) years. The City uses the specific identification method for positions in fixed-rate securities. The investment pools have laddered out maturities within their funds, but are redeemable in full within one day to the governments investing in the pooled funds.

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 of the U.S. Treasury and U.S. agencies and instrumentalities with the exception of mortgage backed securities. It allows investment in obligations of the State of Texas or its agencies and obligations of states, agencies, counties, cities, and other political subdivisions rated not less than A or its equivalent. 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 investment pools authorized by the City Council. On September 30, 2014, Standard & Poor's rated the investment pools AAAm. The senior unsecured debt for investments in FHLB, FFCB, FHLMC, and FNMA are rated AA+ by Standard & Poor's (S&P) and Aaa by Moody's. The four municipal bond investments were rated between an AA- and AA+ by S&P and between an Aa3 and Aaa by Moody's.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City 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, 2014, LP&L's investments constituted the following percentages of total investments: State Investment Pools – 78.89%, FHLMC – 7.46%, FFCB – 3.50%, FNMA – 4.17%, and FHLB – 4.87%, Municipals Bonds – 0.95%, Money Market – 0.02%, and Certificates of Deposit - 0.14%.

Foreign Currency Risk - This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The City has no foreign currency risk.

At September 30, 2014 and 2013, LP&L had the following investments and maturities:

Type	30-Sep-14			30-Sep-13		
	Fair Value	Maturities in Years		Fair Value	Maturities in Years	
		Less Than 1	1-5		Less Than 1	1-5
Federal Home Loan Banks (FHLB)	\$ 4,298,520	\$ 205,808	\$ 4,092,712	\$ 2,344,072	\$ -	\$ 2,344,072
Federal Farm Credit Bank (FFCB)	3,083,952	414,296	2,669,656	2,373,439	-	2,373,439
Federal Home Loan Mortgage Corp. (FHLMC)	6,580,760	-	6,580,760	4,210,473	1,111,358	3,099,115
Federal National Mortgage Association (FNMA)	3,680,939	206,031	3,474,908	3,602,734	-	3,602,734
Municipal Bonds	841,689	190,203	651,486	-	-	-
Certificate of Deposit	125,547	125,547	-	101,799	101,799	-
Money market mutual funds	19,734	19,734	-	-	-	-
State Investment Pools *	59,138,343	59,138,343	-	44,772,388	44,772,388	-
Total	\$ 77,769,483	\$ 60,299,962	\$ 17,469,521	\$ 57,404,905	\$ 45,985,545	\$ 11,419,360

* State Investment Pools are considered investments for financial reporting purposes.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

NOTE 3: INTERFUND TRANSACTIONS

The due to a related party balance is a short-term payable due to WTMPA. This outstanding balance will be repaid within a month.

At September 30, 2014 and 2013, LP&L had no internal financing.

Net transfers out totaling \$14,181,279 for FY 2014 from LP&L to other City funds are the result of 1) General Fund indirect cost allocations, totaling \$1,052,997; 2) payments to WTMPA for management and administration, totaling \$387,407; 3) City franchise fee equivalents totaling \$10,601,088; 4) Payment in lieu of taxes totaling \$2,120,218; 5) Equity Transfer to General Fund totaling \$318,680; offset by a transfer in from the City's Water Fund totaling \$299,111.

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

NOTE 4: INVENTORY

The inventory at September 30, 2014 and 2013 was comprised of repair parts valued at \$119,296 and \$128,665, respectively.

NOTE 5: PREPAID EXPENSES

The total prepaid expenses, included in noncurrent assets, totaling \$2,011,109 in 2014 and \$2,144,443 in 2013 represent an advertising contract with Texas Tech University. The amortization began when the United Supermarkets Arena opened in FY 2000 and is for a total of thirty years.

NOTE 6: GOODWILL

The goodwill book value totaling \$1,593,906 in 2014 and \$1,859,604 in 2013 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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014 follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Not Depreciated:				
Land	\$ 16,627,330	\$ 9,222	\$ 23,350	\$ 16,613,202
Construction in Progress	18,804,138	15,513,192	18,243,229	16,074,101
Total Capital Assets Not Depreciated	35,431,468	15,522,414	18,266,579	32,687,303
Capital Assets Depreciated:				
Buildings	7,899,257	611,742	4,762	8,506,237
Improvements Other than Buildings	307,565,085	9,792,950	1,326,889	316,031,146
Machinery and Equipment	62,278,569	8,381,860	1,788,370	68,872,059
Total Capital Assets Depreciated	377,742,911	18,786,552	3,120,021	393,409,442
Less Accumulated Depreciation:				
Buildings	4,042,299	497,561	2,696	4,537,164
Improvements Other than Buildings	145,236,452	15,551,138	818,200	159,969,390
Machinery and Equipment	32,645,999	2,863,190	1,571,307	33,937,882
Total Accumulated Depreciation:	181,924,750	18,911,889	2,392,203	198,444,436
Total Capital Assets Depreciated, Net	195,818,161	(125,337)	727,818	194,965,006
Capital Assets, Net	\$ 231,249,629	\$ 15,397,077	\$ 18,994,397	\$ 227,652,309

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

NOTE 7: CAPITAL ASSETS (continued)

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Not 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 Depreciated	30,064,294	15,582,614	10,215,440	35,431,468
Capital Assets 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 and Equipment	67,525,391	1,010,025	6,256,847	62,278,569
Total Capital Assets Depreciated	374,519,817	12,274,266	9,051,172	377,742,911
Less Accumulated Depreciation:				
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 and 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
Total Capital Assets Depreciated, Net	204,087,308	(7,889,878)	379,269	195,818,161
Capital Assets, Net	\$ 234,151,602	\$ 7,692,736	\$ 10,594,709	\$ 231,249,629

Construction Commitments

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

Construction Commitments at September 30, 2014:

Original Commitments	Spent-to-Date	Remaining Commitments
\$ 66,093,878	\$ 42,546,826	\$ 23,547,052

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

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 2014	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

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

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 Entry Age Normal actuarial cost method beginning for the valuation date ended December 31st. 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, 2013 valuation is effective for rates beginning January 1, 2015). The annual pension cost and net pension obligation are as follows:

Annual Required Contribution (ARC)	\$3,231,673
Interest on Net Pension Obligation	163,846
Adjustments to the ARC	<u>(147,332)</u>
Annual Pension Cost (APC)	3,248,187
Contributions Made	<u>(3,231,673)</u>
Increase in net pension obligation	16,514
Net Pension Obligation, beginning of year	<u>2,165,907</u>
Net Pension Obligation, end of year	<u><u>\$2,182,421</u></u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

NOTE 8: RETIREMENT PLAN (continued)

Actuarial Assumptions

The required contribution rates for FY 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest valuation, December 31, 2013, also follows:

<u>Valuation Date</u>	<u>12/31/13</u>	<u>12/31/12</u>	<u>12/31/11</u>
Actuarial Cost Method	Entry Age Normal	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	24.0 years; closed period	25.1 years; closed period	26.1 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

<u>As of September 30</u>	<u>Annual Pension Cost</u>	<u>Percentage Of APC Made</u>	<u>Net Pension Obligation</u>
2012	\$3,177,780	94.9	\$2,146,732
2013	3,167,375	99.4	2,165,907
2014	3,248,187	99.5	2,182,421

Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the City's plan was 79.6 percent funded. The actuarial accrued liability for benefits was \$606.7 million, and the actuarial value of assets was \$482.9 million, resulting in an unfunded actuarial accrued liability (UAAL) totaling \$123.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$86.2 million, and the ratio of the UAAL to the covered payroll was 143.6 percent. LP&L's calculated amounts are presented in the accompanying Required Supplementary Information.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

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 624 active participants who pay monthly premiums between \$362/\$22 (medical/dental) for single coverage and \$826/\$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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

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	\$1,722,798
Interest on net OPEB obligation	226,257
Adjustment to the ARC	<u>(209,625)</u>
Annual OPEB Cost	1,739,431
Total annual employer contribution (pay-as-you-go)	<u>(544,640)</u>
Increase in net OPEB obligation	1,194,791
Net OPEB obligation – beginning of year	<u>4,981,673</u>
Net OPEB obligation – end of year	<u>\$6,176,464</u>

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2012	\$1,690,585	29.4%	\$3,741,603
09/30/2013	1,716,992	27.8%	4,981,673
09/30/2014	1,739,431	31.3%	6,176,464

Funded Status and Funding Progress: As of October 1, 2013, the most recent actuarial valuation date, the plan was not funded. The City's actuarial accrued liability for benefits was \$155,021,339, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) totaling \$155,021,339. The covered payroll (annual payroll of active employees covered by the plan) was \$110,942,802 and the ratio of the UAAL to the covered payroll was 139.7 percent. LP&L's percentage of the ARC is calculated at 12.34%, hence, LP&L's accrued liability for benefits was \$19,132,380 and the actuarial value of assets was \$0, resulting in an UAAL totaling \$19,132,380. The covered payroll (annual payroll of active employees covered by the plan) was \$13,692,308, and the ratio of the UAAL to the covered payroll was 139.7 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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

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 7.0% declining to an ultimate rate of 4.75% after 9 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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

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 9-30-14*	Balance Outstanding 9-30-13**
3.89	02-15-05	04-15-25	23,055,000	0	3,255,000
4.26	08-15-05	02-15-25	2,670,000	125,000	575,000
4.58	04-15-06	02-15-26	6,077,282	870,000	3,980,000
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	9,960,462	10,491,086
4.42	04-15-08	08-15-27	6,498,295	5,233,173	5,485,154
4.53	03-01-09	08-15-29	6,936,647	5,856,466	6,119,778
2.70	02-15-10	02-15-30	5,410,997	4,667,227	4,897,015
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	1,340,000	1,970,000
1.61	04-15-13	04-15-21	5,990,000	5,855,000	5,990,000
1.76	04-15-13	04-15-24	2,585,000	2,585,000	2,585,000
2.63	05-01-14	04-15-26	4,515,000	4,470,000	-
Total			<u>\$85,277,323</u>	<u>\$47,354,772</u>	<u>\$51,740,477</u>

* Balance outstanding excludes (\$678,124) of deferred losses and \$2,007,273 of premiums and bond issuance costs.

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

At September 30, 2014, 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 9-30-14*	Balance Outstanding 9-30-13**
2.45	10/15/10	4/15/20	\$ 73,295,000	\$ 46,555,000	\$ 53,195,000
1.90	05/21/13	4/15/24	16,570,000	14,960,000	16,570,000
3.09	05/01/14	4/15/34	16,245,000	16,245,000	-
Total			<u>\$ 106,110,000</u>	<u>\$ 77,760,000</u>	<u>\$ 69,765,000</u>

* Balance outstanding excludes (\$134,609) of deferred losses and \$6,678,281 of net bond premiums and discounts, and bond insurance costs.

**Balance outstanding excludes \$6,227,254 of net deferred losses on advance refundings, bond premiums and discounts.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

NOTE 11: LONG-TERM LIABILITIES (continued)

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

Fiscal	General Obligation Bonds		Revenue Bonds	
2014-15	\$ 4,155,805	\$ 1,969,224	\$ 9,400,000	\$ 3,247,888
2015-16	4,144,616	1,821,311	9,650,000	2,967,744
2016-17	4,436,695	1,678,362	10,065,000	2,534,244
2017-18	4,526,806	1,527,320	10,485,000	2,092,094
2018-19	3,168,675	1,379,190	10,960,000	1,593,494
2019-23	16,254,506	4,583,171	21,205,000	3,108,369
2024-28	10,234,527	1,114,345	2,740,000	895,488
2029-34	433,141	9,773	3,255,000	382,181
Totals	\$ 47,354,772	\$ 14,082,696	\$ 77,760,000	\$ 16,821,500

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2014 and 2013 are as follows:

Fiscal Year 2014	Balance			Balance	Due in
	9/30/2013	Additions	Deletions		
LP&L activities:					
General Obligation Bonds	\$51,740,477	\$4,515,000	\$8,900,706	\$47,354,772	\$4,155,805
Revenue Bonds	69,765,000	16,245,000	8,250,000	77,760,000	9,400,000
Capital Leases	27,349	-	27,349	-	-
Compensated Absences	3,337,650	1,523,912	1,643,954	3,217,608	1,758,087
Other Post Employment Benefits	4,981,673	1,194,791	-	6,176,464	-
Net Pension Obligation	2,165,907	16,514	-	2,182,421	-
Total LP&L activities	\$132,018,056	\$23,495,217	\$18,822,009	\$136,691,265	\$15,313,892

Fiscal Year 2013	Balance			Balance	Due in
	9/30/2012	Additions	Deletions		
LP&L activities:					
General Obligation Bonds	\$61,154,745	\$8,695,000	\$18,109,267	\$51,740,477	\$4,045,706
Revenue Bonds	63,720,000	16,570,000	10,525,000	69,765,000	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	\$134,066,163	\$28,352,299	\$30,400,405	\$132,018,056	\$13,944,803

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

NOTE 11: LONG-TERM LIABILITIES (continued)

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 2014, The City issued \$16,245,000 Electric Light and Power System Revenue Bonds, Series 2014 (Bonds), with interest rates from 2.00% to 3.875%. The Bonds at year end have an unamortized premium totaling \$1,275,222. Bond proceeds totaling \$17,355,000 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.

In May 2014, The City issued \$44,920,000 General Obligation Refunding Bonds, Series 2014 (Bonds), with interest rates from 2.00% to 5.00%. Of the \$44,920,000, LP&L's portion was \$4,515,000 with a premium totaling \$760,530 and a deferred loss totaling \$125,655 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 8.7% savings on refunded bonds. The debt will be legally defeased in 2017.

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 at year end have an unamortized premium of \$1,373,654 and deferred loss on refunding of \$217,001. Bond proceeds totaling \$14,020,000 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 in proceeds was used to 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, LP&L 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% savings on refunded bonds.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

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 percent to 3.00 percent 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 percent to 5.00 percent. \$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.

In April 1999, the City purchased workers' compensation coverage, with no deductible, from Texas Municipal League Intergovernmental Risk Pool (TML_IRP) with continuous coverage through September 30, 2009. 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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

NOTE 12: RISK MANAGEMENT (continued)

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. Prior to April 1999 the City was self-insured for workers' compensation claims. Any claims outstanding prior to April 1999 continue to be the City's responsibility.

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

For self-insured coverage, the Risk Management Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly for liability coverage.

Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claim liabilities are charged or credited to expense in the period in which they are incurred.

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

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2014 and 2013

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 totaling \$350,000 per covered individual annually with an aggregate cap. The insurance vendor based on medical trends, claims history, and utilization determines the aggregate deductible. The actuarially determined calculation of the claim liability is \$1.62 million at September 30, 2014 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 totaling \$10,000 per employee.

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

NOTE 14: LITIGATION

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

In the interest of Akeelah Lockett (minor child) v. City of Lubbock

Plaintiff has sued the City after suffering electrical burns upon entering a Lubbock Power and Light transformer box. Plaintiff's pleadings assert damages in excess of \$100,000; however, Plaintiff has demanded damages in the amount of \$7,650,000. The ultimate outcome of the case is unknown at this time.

The City intends to vigorously defend itself in such action, both as to liability and damages, and 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, 2014, and the expected remaining liability is \$152,000 as recorded in accrued liabilities on the Statement of Net Position.



**Lubbock Power and Light
Required Supplementary Information
Schedule of Funding Progress
For the Year Ended September 30, 2014**

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
2013	71,463,612	89,789,334	79.6%	18,325,722	12,757,982	143.6

*Based on LP&L's percentage of TMRS employee contributions of the City's total employee contributions calculated as of the last payroll for fiscal year; 2009, 13.34%; 2010, 17.79%; 2011, 18.54%; 2012, 14.41%; 2013, 14.40%; and 2014, 14.80%.

**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
12/31/13	TMRS	482,862,241	606,684,688	123,822,447	79.6	86,202,580	143.6
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
10/01/13	OPEB	-	155,021,339	155,021,339	-	110,942,802	139.7

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.

**Lubbock Power and Light
Required Supplementary Information
Schedule of Funding Progress
For the Year Ended September 30, 2014**

The December 31, 2013 actuarial valuation included three actuarial changes adopted by the TMRS Board of Trustees in accordance with the current strategic goal to “maintain the actuarial soundness of the retirement program by examining actuarial assumptions and methodologies and making changes where appropriate”.

The first was regarding post-retirement mortality assumptions. The mortality tables used in calculating the Annuity Purchase Rate (APR) were updated. This was necessary due to increasing life expectancies. The second was a change to the Entry Age Normal Actuarial Cost Method (EAN). The EAN cost method produces contribution rates that are more predictable and that exhibit less volatility than those produced under the method previously used, Projected Unit Method (PUC). Even though the EAN cost method will result in higher initial Actuarial Accrued Liabilities and lower funded ratios than under the previous PUC method, a primary goal of TMRS is to minimize contribution volatility. A change to the EAN cost method for funding purposes is another step toward accomplishing this policy.

A secondary reason for changing to the EAN cost method is that, beginning in 2014, under Governmental Accounting Standards (GASB) Statement No. 67 and No. 68, EAN is the required actuarial cost method to be used for reporting purposes.

The third change was regarding the amortization policy. In order to minimize the impact on contribution rates resulting from the changes in the retiree mortality assumptions and the actuarial cost method, individual employer amortization periods were adjusted to the extent necessary and allowable under current TMRS statutes and Board rules. The Board also elected to close the amortization period for all employers and to ladder the amortization of future liabilities over the respective 25 or 30 year amortization period.

A more detailed discussion of all these actuarial assumptions can be found in the TMRS Comprehensive Annual Financial Report. This report may be obtained from TMRS’ website at www.TMRS.com.

Acknowledgements

LP&L would like to thank the City of Lubbock Accounting Department for their assistance in preparing the FY 2013-14 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
Brack Bullock
Linda Cuellar, CPA
Veronica Valderaz
Deborah Hansard
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