



Annual Financial Report

Fiscal Years Ended September 30, 2015 and 2014





Lubbock Power & Light
The power is yours.

Annual Financial Report
For the Fiscal Years Ended September 30, 2015 and 2014





Lubbock Power & Light
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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
Blair McGinnis	Chief Operating Officer
Chad Sales	Financial Planning and Analysis Manager
Jarisa Larsen	Senior Accountant



Annual Financial Report
For the Fiscal Years Ended September 30, 2015 and 2014

Table of Contents

Introduction	1
Independent Auditor's Report	3
Management's Discussion and Analysis	5
Statement of Net Position	21
Statement of Revenues, Expenses, and Changes in Net Position	23
Statement of Cash Flows	24
Notes to Basic Financial Statements	
Note 1: Summary of Significant Accounting Policies	25
Note 2: Deposits and Investments	29
Note 3: Interfund Transactions	31
Note 4: Inventory	32
Note 5: Prepaid Expenses	32
Note 6: Goodwill	32
Note 7: Capital Assets	33
Note 8: Retirement Plan	35
Note 9: Other Postemployment Benefits	39
Note 10: Deferred Compensation	42
Note 11: Long-Term Liabilities	42
Note 12: Risk Management	46
Note 13: Health Insurance	47
Note 14: Litigation	47
Note 15: Site Remediation	48
Required Supplementary Information	49



**Lubbock Power and Light
City Electric System
Introduction
For the Years Ended September 30, 2015 and 2014**

Lubbock Power and Light (LP&L) is pleased to present its Basic Financial Statements for the fiscal years ended September 30, 2015 and 2014. 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, 2015 and 2014, and the statements of revenues, expenses and changes in net position and of cash flows for the years 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, 2015 and 2014, 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.

Other Matters

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, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in *Note 1 B*, to the financial statements, in 2015, Lubbock Power & Light, an enterprise fund of the City of Lubbock, Texas, adopted new accounting guidance Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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 postemployment 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 12, 2016

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

INTRODUCTION

The following Management's Discussion and Analysis (MD&A), serves as an introduction to the financial statements of Lubbock Power & Light (LP&L). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ended September 30, 2015 (FY 2015), compared to the fiscal year ended September 30, 2014 (FY 2014). 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 as a whole, 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.

Statement of Net Position: This statement includes LP&L's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position and provides information about the nature and amount of assets and obligations (liabilities) of LP&L. It also provides the basis for the evaluation of LP&L's capital structure, liquidity, financial flexibility, and overall financial health.

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, interest receivable, prepayments, and inventories. Noncurrent assets include investments that have been restricted (by state laws, ordinances, or contracts), goodwill, prepayments, and net capital assets.

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

The components of net position are classified as net investment in capital assets, restricted, and unrestricted. An unrestricted designation indicates the net funds are available for operations without constraints established by debt covenants, enabling legislation or other legal requirements.

Statement of Revenues, Expenses, and Changes in Net Position: This statement presents the results of the business activities (revenues and expenses) over the course of the fiscal year and provides information about LP&L's recovery of costs. Operating revenues include charges for services less a provision for bad debts, and operating expenses are presented by major cost categories. The remaining operating income is available to service debt, to fulfill city payment commitments, to finance capital expenditures, and to cover contingencies. Non-operating activities, which primarily relate to

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

financing and investing, are reported separately. Other payments to the City and contributed capital are also reported separately as components of the change in net position.

Statement of Cash Flows: This statement presents cash receipts, cash disbursements, and net changes in cash resulting from operations, non-capital and related financing, capital and related financing, and investing activities.

Notes to the Financial Statements: The notes provide required disclosures and other detailed 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 at the beginning of the summer season on June 1 and at the beginning of the non-summer season on October 1.

The PPRF was 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 any monthly 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, 2015, the \$4.9 million under-recovery from FY 2014 was fully collected and metered revenues exceeded purchased power costs on a cumulative basis by approximately \$2.2 million. The financial statements recognize the over-collection as an accounts payable on the Statement of Net Position and does not incorporate these revenues on the Statement of Revenue, Expense, and Changes in Net Position.

Base Rate Adjustment – Rates are set by the Board and approved by the City Council. On September 11, 2014, the City Council approved a 5.75 percent adjustment to LP&L's base rates, which became effective on October 1, 2014. The 5.75 percent base rate adjustment affected all rate classes, and was the amount necessary to meet the revenue requirements as calculated by the long-term

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

financial model. The base rate adjustment impacted FY 2015 revenues as anticipated in the FY 2015 operating budget.

Unit Contingent / Power Marketing – Two unit contingent agreements (UCA) with Southwestern Public Service Company (SPS) for the Brandon and Massengale Stations expired on August 31, 2014. One UCA remains in existence with SPS for the Cooke Station, which continues until 2019.

Due to the expiration of the two UCAs, LP&L entered into an agreement in February 2015 with a power marketing company (PMC) to register the Brandon and Massengale units in the PMC's portfolio. The agreement allowed the PMC to manage and procure the natural gas needed to operate the Brandon and Massengale units. The agreement also allowed the PMC to bid the units into the Southwest Power Pool's (SPP) Integrated Marketplace (IM) on LP&L's behalf since LP&L is not a registered member of SPP.

In FY 2015, the total revenue produced by the LP&L generating units was \$3.2 million, compared to \$10.8 million in FY 2014. Of the \$3.2 million, power marketing produced \$1.5 million in revenue and the Xcel capacity payments produced \$1.7 million in revenue. The primary driver of the approximate \$7.6 million decrease in revenue was the loss of the capacity payments from SPS on the Brandon and Massengale units. Under the expired SPS agreement, LP&L received capacity payments of \$6,500 per megawatt in the winter (October – May) and \$7,500 per megawatt in the summer (June – September). The total megawatt output between Brandon Station and Massengale Station is approximately 80 megawatts. SPS continued to make capacity payments of \$2,120 per megawatt each month for the Cooke units. However, the production at Cooke Station decreased dramatically in FY 2015 with the majority of the station either under repair or out of commission due to unplanned outages on the steam and gas turbines. Xcel only pays a capacity payment to LP&L based on the generating units' availability, thus, due to the unplanned outages at Cooke Station in FY 2015, the capacity payments were reduced by \$1.3 million from the prior year.

Capital Program – A total of 17 new capital projects and 14 existing capital projects were funded during FY 2015, totaling \$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 5-year planning horizon. The significant projects funded during the fiscal year included the 69kV line rebuild from Co-op to Slaton, totaling \$3.0 million; Indiana underground cable replacement, totaling \$3.0 million; Oliver substation transformer capacity upgrade, totaling \$2.5 million; Milwaukee autotransformer, totaling \$2.4 million; underground electric lines, totaling \$1.8 million; overhead lines, totaling \$1.5 million; and distribution transformers, totaling \$1.5 million.

A total of 20 capital projects, totaling \$21.4 million, were completed and closed in FY 2015 and were moved from construction in progress to the appropriate capital asset category. The significant projects completed in FY 2015 included:

- Distribution transformers (\$2.4 million) – the purchase of overhead transformers, pad-mount transformers, and switches to be used for upgrading capacity or for new customers to be served.
- Underground distribution (\$1.7 million) – the installation of underground primary and/or secondary lines used to provide electric service to new customers.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

- Overhead distribution (\$1.5 million) – the purchase of materials and the installation or extensions of new overhead distribution lines to serve LP&L customers.
- Chalker substation transformer replacement (\$1.3 million) – the purchase of two 30 megavolt ampere (MVA) transformers to replace the existing 12 MVA transformers at Chalker Substation.

Debt Issuance – In FY 2015, LP&L issued \$11.9 million in revenue bonds. The Bonds that were issued funded capital projects in the FY 2015 Capital Program. The Bonds were issued at a premium of \$1.5 million and the true interest cost for this issuance was 3.31 percent. The City also issued advance refunding bonds, with LP&L's share being approximately \$13.0 million. The refunding transactions resulted in decreased total debt service requirements with over 8.97 percent savings on the refunded bonds. The true interest cost for these issues was 2.36 percent.

Meter Growth – LP&L's meter base totaled 103,475 and 102,079 meters at September 30, 2015 and 2014, respectively. The 2015 meter increase of 1.37 percent is modest yet slightly above normal growth levels within LP&L's certificated area.

RESULTS OF OPERATIONS

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Program revenues			
Charges for services	\$ 221,215,135	\$ 227,244,632	\$ 212,656,108
General revenues			
Investment earnings	403,267	159,777	31,706
Other revenues (expenses)	<u>(1,509,618)</u>	<u>811,144</u>	<u>345,870</u>
Total revenues	<u>220,108,784</u>	<u>228,215,553</u>	<u>213,033,684</u>
 Program expenses (including interest)	 <u>200,122,394</u>	 <u>209,587,095</u>	 <u>195,052,106</u>
 Contributions	 <u>44,621</u>	 <u>9,222</u>	 <u>73,865</u>
 Excess before transfers	 20,031,011	 18,637,680	 18,055,443
Transfers	<u>(14,779,263)</u>	<u>(14,181,279)</u>	<u>(13,394,793)</u>
 Change in net position	 5,251,748	 4,456,401	 4,660,650
Net position, beginning of year *	<u>163,460,834</u>	<u>171,536,303</u>	<u>166,875,653</u>
Net position, end of year	<u>\$ 168,712,582</u>	<u>\$ 175,992,704</u>	<u>\$ 171,536,303</u>

* Restated beginning net position for FY 2015 due to change in GASB pronouncements. See Other Changes in Net Position in the Management Discussion and Analysis.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

Total Revenues and Non-Operating Income

FY 2015 – Program revenues totaled \$221.2 million, representing a 2.65 percent decrease from FY 2014. Following is a breakdown of program revenues by major category:

Revenues	2015	2014	Change
General Consumers Metered	\$ 214,564,756	\$ 212,021,761	\$ 2,542,995
Power Mkt / Unit Contingent	3,174,821	10,786,122	(7,611,301)
Uncollectible	(659,711)	179,389	(839,100)
Other	4,135,269	4,257,360	(122,091)
Total	\$ 221,215,135	\$ 227,244,632	\$ (6,029,497)

This decrease was primarily due to the loss of capacity payments on the Brandon and Massengale stations related to the expiration of the UCAs as described in the Financial Highlights section of this document. Revenue from the UCAs was down \$9.1 million (from \$10.8 million in FY 2014 to \$1.7 million in FY 2015). This loss of revenue was slightly offset by power marketing revenues generated by the Brandon and Massengale stations, totaling \$1.5 million.

The other main contributor to reduced program revenues was related to a change in the accounting estimate for uncollectable accounts that occurred in FY 2014. In the prior fiscal year, the Allowance for Bad Debt calculation was modified to match the calculation used by all other City utilities. The prior and current calculations are illustrated as follows:

Calculation prior to FY 2014:

$$\text{Current receivables over 91 days} + \left(\text{Current receivables under 91 days} \times \frac{\text{Prior Year Charge-Offs}}{\text{Accounts Receivable}} \right)$$

Calculation beginning in FY 2014:

$$\text{Current receivables over 91 days} + \left(\text{Current receivables under 91 days} \times \frac{\text{Prior Year Charge-Offs}}{\text{Sales}} \right)$$

This change in methodology resulted in a reduction of uncollectible expense in the amount of \$0.6 million, resulting in a net credit of \$0.2 million in FY 2014. Therefore, the credit entry in the prior year compared to the uncollectible expense in FY 2015 resulted in a \$0.8 million change, resulting in reduced program revenues between fiscal years. The bad debt allowance was \$2.0 million in the prior fiscal year and \$2.3 million for FY 2015. Calculated on a three-year average, LP&L has charged-off approximately \$0.8 million per year, therefore an allowance of \$2.3 million is reasonable for the utility.

Partially offsetting the reduction in program revenues was an increase of \$2.5 million in metered revenues. The increase in metered revenues was related to the 5.75% base rate adjustment that became effective on October 1, 2014 and was also related to increased PPRF rates necessary to collect the \$4.9 million under-collection of PPRF revenues in FY 2014. The base rate adjustment and higher PPRF collection rates were offset by lower revenues to cover purchased power costs as a result of lower natural gas prices. Natural gas prices were \$4.04 per one million British thermal units (MMBtu)

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

at year end 2014 and \$2.97 per MMBtu at year end 2015. Since natural gas is the largest driver of purchased power costs, the decrease in the price of this commodity also impacted program revenues.

Non-operating income was mainly comprised of investment earnings and disposition of assets. Disposition of assets was basically unchanged from the prior year, yet investment earnings increased from \$0.2 million in FY 2014 to \$0.4 million in FY 2015. This increased revenue was due to the mark-to-market adjustment, or unrealized gain, on the investments.

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 PPRF 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 MMBtu in October 2013, peaked at \$6.18 per MMBtu in February 2014, and ended FY 2014 at \$4.04 per MMBtu. Additionally, LP&L's non-operating revenues totaled \$1.0 million for FY 2014, an increase of \$0.6 million.

Operating Expenses

FY 2015 – Program expenses, excluding interest expense, were \$196.1 million, representing a 4.5 percent decrease from FY 2014. The decline was due to decreased fuel costs which are highly correlated to natural gas prices, as discussed in the previous section. Within total operating expenses, the cost of purchased power, totaling \$147.5 million, represented 75.2 percent of total program expenses for FY 2015.

Program expenses, excluding purchased power costs and interest expense, totaled \$48.6 million, a decrease of \$3.5 million, or 6.7 percent, compared to FY 2014. The decrease was made up of \$2.5 million in personal services, \$0.7 million in other services and charges, and \$0.2 million in depreciation and amortization.

Personal services expense was down due to inflated labor costs in FY 2014 for overhead and underground installations, totaling \$0.8 million, and for employee severance costs, totaling \$0.4 million. This category was also down approximately \$0.4 million in FY 2015 due to reduced benefits expense as a result of the previously mentioned reduced payroll and was down \$0.5 million as a result of the implementation of GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as discussed in the Notes to the Financial Statements. Of the remaining \$2.5 million decrease in personal services, compensated absences decreased a net of \$0.4 million due to increased employee retirement.

Other Services and Charges decreased due to additional fees in FY 2014 related to the 2019 Capacity and Energy Supply Services Request for Proposal (RFP). Additionally, water utilities were lower than expected in FY 2015 due to the limited need for cooling water at the generating units as a result of the mild summer temperatures.

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

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

correlated to natural gas prices. Within total operating expenses, the purchased power cost, totaling \$153.2 million, represented 74.6 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 2.9 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 RFP.

Non-Operating Expenses and Transfers

FY 2015 – Interest and debt-related expense of \$4.1 million was down \$0.2 million, compared to FY 2014, due to lower bond interest payments. The miscellaneous revenue/expense line item totaled approximately \$1.7 million in expense for FY 2015, compared to \$0.7 million in revenue for FY 2014. The majority of the \$2.4 million change was related to an accrued expense of \$1.6 million that was recorded in relation to a contract dispute with the Texas Tech University System (TTUS). The \$1.6 million entry was booked in accordance with sections 102-104 of GASB statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. For more details, see “Note 14: Litigation” in the footnotes. Of the remaining \$0.8 million expense, approximately \$0.4 million was related to street light transfers from LP&L to the City and approximately \$0.3 million was related to miscellaneous capital project expenses.

Transfers to the City totaled \$14.8 million, which was up \$0.6 million from FY 2014. The increase in transfers was related to an increased Payment in Lieu of Property Tax (PILOT), an increased Franchise Fee Equivalent (FFE), and an increased transfer to WTMPA. Although total revenues were down from last fiscal year, the metered revenue accounts used to calculate the PILOT and FFE increased \$2.5 million from FY 2014 to FY 2015. The PILOT and FFE are based on a percentage of metered revenues, thus, the transfers increased accordingly. Additionally, the indirect cost allocation transfer increased \$0.1 million, or 8.9 percent, driven by higher costs associated with the City Manager, City Attorney, City Council, Human Resources, and Facilities Management departments.

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 increase in general consumer metered revenues.

Other Changes in Net Position

FY 2015 – Net position for the years ended September 30, 2015 and 2014 was \$168.7 million and \$163.5 million (as restated), respectively. Due to the adoption of GASB 68, the FY 2014 net position was restated as required by first eliminating the existing Net Pension Obligation of \$2.2 million and then recording a prior period adjustment to recognize the current Net Pension Liability of \$14.7 million. Both of these adjustments were net against Net Position, resulting in a downward restatement of previously reported net position totaling \$12.5 million.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

FY 2015 net income of \$19.9 million was \$1.3 million higher than the FY 2014 net income of \$18.6 million due to the \$9.2 million decrease in operating expenses, offset by the \$6.0 million decrease in operating revenues and the \$1.9 million increase in non-operating expenses.

The two main operating expenses contributing to the \$9.2 million decrease included the \$2.5 million decrease in personal services and the \$5.7 million decrease in the purchase of fuel and power. Other contributors to the \$9.2 million decrease in operating expenses included the \$0.2 million decrease in supplies, the \$0.8 million decrease in other services and charges, and the \$0.2 million decrease in depreciation, all offset by a \$0.2 increase in maintenance.

The \$6.0 million operating revenue decrease was caused by the lower capacity payments from SPS due to the expiration of unit contingent agreements for Brandon and Massengale Stations and the bad debt calculation; and was offset by the increase in general consumers' metered revenues (details discussed in the section titled "Total Revenues and Non-operating Income").

The remaining \$1.9 million variance in net income stemmed from a \$2.3 million increase in miscellaneous expense, offset by a \$0.2 million increase in interest income and a \$0.2 million decrease in interest expense.

Net transfers, totaling \$14.8 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 as a franchise fee equivalent, totaling \$10.7 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 \$0.8 million; offset by a transfer-in of \$0.1 million from the Water fund for the reimbursement of personnel costs incurred by LP&L for dispatch services.

LP&L's change in net position was a gain of \$5.2 million compared to a gain of \$4.5 million in FY 2014, reflecting an increase of \$0.7 million in income when contributions and transfers are included.

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 as a franchise fee equivalent, 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

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

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.

FINANCIAL POSITION

Condensed Statement of Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Current assets	\$ 95,254,290	\$ 92,327,159	\$ 83,608,126
Capital assets, net	220,227,317	227,652,309	231,249,629
Noncurrent investments	34,207,586	25,420,350	14,892,345
Goodwill	1,328,208	1,593,906	1,859,604
Prepaid expenses	1,877,776	2,011,109	2,144,443
Total assets	<u>352,895,177</u>	<u>349,004,833</u>	<u>333,754,147</u>
Deferred outflows of resources	<u>4,729,928</u>	<u>812,733</u>	<u>777,990</u>
Liabilities:			
Current liabilities	43,924,857	43,761,935	36,988,393
Noncurrent liabilities	144,192,335	130,062,927	126,007,441
Total liabilities	<u>188,117,192</u>	<u>173,824,862</u>	<u>162,995,834</u>
Deferred inflows of resources	<u>795,331</u>	<u>-</u>	<u>-</u>
Net position:			
Invested in capital assets, net of related debt	112,362,525	109,449,829	105,147,115
Restricted	10,254,840	9,822,504	12,305,835
Unrestricted	46,095,217	56,720,371	54,083,353
Total net position	<u>\$ 168,712,582</u>	<u>\$ 175,992,704</u>	<u>\$ 171,536,303</u>

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

Current Assets

FY 2015 – Current assets at September 30, 2015, of \$95.3 million were \$3.0 million higher than the balance at September 30, 2014. Cash, cash equivalents, and investment balances increased \$1.9 million due to positive cash flows in this fiscal year mainly as a result of the base rate adjustment of 5.75 percent that went into effect October 1, 2014. Inventory balances also had a significant increase of \$1.6 million due to the transition of inventory balances from the Warehouse Internal Service Fund to LP&L. These two increases were offset by a slight reduction in accounts receivable, totaling \$0.6 million.

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 from a billing system error in FY 2013. This decrease was partially offset by an increase in receivables as a result of higher purchased power costs in FY 2014.

Noncurrent Assets

FY 2015 – Noncurrent restricted assets totaled \$37.4 million at September 30, 2015, an increase of \$8.4 million compared to September 30, 2014. The increase was largely attributable to an increase in restricted investments as a result of unspent LP&L bond proceeds from the Series 2015 issuance.

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.

Capital Assets, Net

FY 2015 – At September 30, 2015, net capital assets of \$220.2 million decreased \$7.5 million from \$227.7 million at September 30, 2014. The decrease was due to the depreciation, or retirement of assets, outpacing 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 transmission and distribution lines listed in the table below. The number of miles of distribution lines began being tracked with geographic information system (GIS) technology in FY 2014.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Generating stations	3	3	3
Substations	37	37	37
Miles of distribution lines	5,754	5,743 *	2,202
Miles of transmission lines	105	105	105

* Corrected prior year number of 7,115, which incorrectly included a duplication of distribution lines

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

FY 2014 – Capital assets decreased \$3.6 million in 2014 due to the depreciation, or retirement of assets, being greater than the acquisition and development of capital assets.

Current Liabilities

FY 2015 – Excluding current maturities of debt totaling \$14.2 million, current liabilities decreased \$0.5 million, from \$30.2 million at September 30, 2014, to \$29.7 million at September 30, 2015. This decrease was largely caused by a \$5.2 million decline in the Due to Related Party line item from the prior fiscal year offset by increases in accounts payable and accrued liabilities, totaling \$4.5 million. The balance in the Due to Related Party line item was high in FY 2014 due to additional amounts owed to WTMPA as a result of the failure of one of SPS's current transformers at Doud Substation. Due to the failure of the current transformer, SPS 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 and was reflected on the books at the end of FY 2014.

Offsetting the decreased Due to Related Party balance was a \$2.9 million increase in accounts payable and a \$1.6 million increase in accrued liabilities. The bulk of the increase in accounts payable was related to a \$2.2 million collection of metered revenues that exceeded actual purchased power expenses in FY 2015. Secondly, accounts payable increased approximately \$0.7 million related to vouchers payable associated with the transition of inventory from the Warehouse Internal Service Fund to LP&L. The increase in accrued liabilities was related to the accrued legal expense of \$1.6 million that was recorded in relation to a contract dispute with TTUS.

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 additional amounts owed to WTMPA as a result of the failure of one of Xcel's current transformers at Doud Substation, described above. 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.

Other Noncurrent Liabilities

FY 2015 – Excluding the noncurrent portion of debt of \$119.0 million, long-term liabilities increased \$15.3 million to \$25.1 million at September 30, 2015. This increase was primarily related to the implementation of GASB 68, which required LP&L to recognize a Net Pension Liability of \$16.7 million on the Statement of Net Position. This was a \$14.5 million increase from the September 30, 2014 Net Pension Liability of \$2.2 million. The remaining \$0.8 million variance in long-term liabilities was from a \$1.2 million increase in other postemployment benefits (OPEB), offset by a \$0.4 million decrease in compensated absences.

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 OPEB, offset by a \$0.2 million decrease in compensated absences.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

LONG-TERM DEBT

FY 2015 – At September 30, 2015 LP&L's total outstanding debt was \$133.3 million. Bonds payable was composed of \$42.2 million in certificates of obligation, \$80.2 million in revenue bonds, and \$10.9 million in net deferred losses on advanced refundings, bond premiums and discounts, and bond issuance costs. All outstanding debt is comprised of fixed interest rate instruments.

New Issuance – In April 2015, LP&L issued \$11.85 million Electric Light and Power Revenue Bonds, Series 2015. The true interest cost for this issuance, which has maturities in 2016 through 2035, is 3.31 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 Refunding – In April 2015, the City issued approximately \$129.7 million General Obligation Refunding Bonds Tax-Exempt Series 2015, with LP&L's portion being approximately \$13.0 million. This refunding transaction resulted in decreased total debt service requirements and an 8.97 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2015 through 2027, is 2.36 percent.

Reductions – In addition to the refunding described above, that resulted in a reduction in long-term debt outstanding, LP&L made principal payments totaling \$9.4 million on its revenue bonds and \$4.3 million on its certificates of obligation.

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 net deferred losses on advanced refundings, bond premiums and discounts, and bond issuance costs. 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 Refunding – In May 2014, the City issued approximately \$44.9 million General Obligation Refunding Bonds Tax-Exempt Series 2014, with LP&L's portion being approximately \$4.5 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 refunding described above, that resulted in reductions in long-term debt outstanding, LP&L made principal payments totaling \$8.25 million on its revenue bonds and \$4.09 million on its certificates of obligation.

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

CURRENTLY KNOWN FACTS

Future Generation – A Transaction Agreement for Total Requirements Power Service between the West Texas Municipal Power Agency (WTMPA) and Southwestern Public Service Company (SPS) provides that SPS serve the entire capacity and energy requirements of 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 the hour ending midnight on May 31, 2044. Expiration of the full requirements power purchase agreement followed by commencement of the partial requirements power purchase agreement leaves a significant amount of capacity required to meet projected WTMPA needs beginning in 2019.

In July 2014, LP&L issued a Request for Proposal (RFP) for capacity and energy supply services for the purchase of some or all of the capacity needed in 2019. Responses to the RFP were due on October 7, 2014. After a methodical and purposeful examination of all proposals and options, LP&L decided to take down the RFP on August 11, 2015 and announced on September 24, 2015 the intent to join the Electric Reliability Council of Texas (ERCOT).

LP&L has initiated the process to formally join the Texas state electric grid and has submitted a full transmission study to ERCOT for their approval, which was conducted by expert engineering consultants who worked in close consultation with LP&L staff. Over the next year, there will be additional studies conducted by the Public Utility Commission of Texas (PUC), ERCOT, and LP&L looking closely at every technical component of the future transition. Over the next four years, additional infrastructure will be constructed in order to connect the LP&L system to the ERCOT power grid by 2019. In many instances, this infrastructure is already a part of LP&L's existing long-term capital improvement plan. Many of the projects undertaken over the past two years were related to reliability and will cover what needs to be in place before the final transition. Additional areas of construction needed, such as new transmission lines and substations, will be studied and decided upon as part of the official review to take place through the PUC and ERCOT.

Base Rate Adjustment – Rates are set by the Board and approved by the Lubbock City Council. On September 10, 2015, the City Council approved a 5.75 percent adjustment in LP&L's base rates, which became effective on October 1, 2015. The long-term financial model anticipates similar base rate adjustments for the next three fiscal years.

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 FY 2016 as reported by the EIA are as follows:

- **Electricity Generation** – In 2016, the EIA projects that natural gas prices will begin to slowly rise and as a result, they expect the share of total generation fueled by natural gas to decrease 0.8 percent, down to 31.6 percent.
- **Electricity Retail Prices** – The slowly rising cost of natural gas in 2015 is the primary factor for a projected rise in the price of electricity. The EIA expects electricity prices to average 12.7

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

cents per kilowatt hour (kWh) for calendar year 2016, which is a 0.7 percent increase over 2015.

- **Natural Gas Prices** – The EIA expects the Henry Hub natural gas spot price to average \$2.88 per MMBtu in calendar year 2016 compared with \$2.67 per MMBtu in calendar year 2015.
- **Coal Prices** – According to the EIA, lower natural gas prices are the primary driver of the decrease in coal consumption in 2015. Retirements of coal-fired power plants, stemming from both increased competition with natural gas generation and the implementation of the Mercury and Air Toxics Standards (MATS), also reduce coal-fired capacity in the power sector, but the full effect will not be evident until 2016. Higher forecast natural gas prices in 2016 are expected to contribute to higher utilization rates among the remaining coal-fired power plants, which mitigates the effect of lower consumption because of coal-plant retirements. Coal consumption in the electric power sector is forecast to increase by 1 percent in 2016, as electricity demand rises and electricity generation from natural gas and nuclear decline. The annual average coal price to the electric power sector averaged \$2.37/MMBtu in 2014. EIA expects the average delivered coal price to average \$2.24/MMBtu in 2015 and 2016.
- **Generation Mix** – LP&L is in the Southwest Power Pool (SPP) which maintained the following generation mix in each of the following time periods:

	<u>CY 2015</u>	<u>CY 2014</u>	<u>CY 2013</u>
Natural Gas	21.64%	46.50%	42.04%
Coal	55.08%	35.40%	34.08%
Wind	13.52%	11.45%	10.01%
Hydro	1.54%	1.10%	4.55%
Dual Fuel	0.00%	0.00%	4.06%
Nuclear	8.12%	3.43%	3.34%
Fuel Oil	0.03%	2.03%	1.83%
Other	0.07%	0.09%	0.09%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Legislation and Regulations – There are several pending federal environmental regulations that pertain to power plant and air pollution controls addressing greenhouse gases, including the Clean Power Plan, which may cause LP&L to face a limited number of CO₂ allowances. If so, the ability to operate LP&L plants could be restricted unless additional allowances are purchased or LP&L chooses to limit the run times of the plants. All of LP&L's generation sources emit greenhouse gasses as part of the combustion process, but a greenhouse gas permit primarily relating to CO₂ is not required at this point in time.

There are also pending federal electric reliability regulations pertaining to high voltage electric transmission lines and equipment. These pending regulations could impact LP&L, but the impact is expected to be low until LP&L begins major capacity upgrades in preparation for its proposed transition to ERCOT.

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

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2015 and 2014**

needed, LP&L has dedicated regulatory compliance specialists on staff to coordinate environmental and electric reliability compliance efforts. Management is committed to maintaining the culture of compliance at LP&L.

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
Statement of Net Position
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,640,502	\$ 10,463,109
Investments	57,089,080	52,349,133
Accounts receivable, net	28,738,556	29,337,541
Interest receivable	26,292	33,080
Prepaid expenses	25,000	25,000
Inventories	1,734,860	119,296
Total current assets	<u>95,254,290</u>	<u>92,327,159</u>
Noncurrent assets:		
Restricted investments	34,207,586	25,420,350
Goodwill	1,328,208	1,593,906
Prepaid expenses	1,877,776	2,011,109
	<u>37,413,570</u>	<u>29,025,365</u>
Capital assets:		
Land	16,657,823	16,613,202
Construction in progress	10,841,387	16,074,101
Buildings	8,740,775	8,506,237
Improvements other than buildings	323,190,418	316,031,146
Machinery and equipment	77,476,919	68,872,059
Less accumulated depreciation	<u>(216,680,005)</u>	<u>(198,444,436)</u>
Total capital assets	<u>220,227,317</u>	<u>227,652,309</u>
Total noncurrent assets	<u>257,640,887</u>	<u>256,677,674</u>
Total assets	<u><u>\$ 352,895,177</u></u>	<u><u>\$ 349,004,833</u></u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	\$ 1,440,177	\$ 812,733
Deferred outflows from pensions	<u>3,289,751</u>	<u>-</u>
Total deferred outflows of resources	<u><u>\$ 4,729,928</u></u>	<u><u>\$ 812,733</u></u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Net Position
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 3,355,853	\$ 454,485
Accrued liabilities	3,111,974	1,468,230
Accrued interest payable	1,819,672	1,738,112
Due to related party	12,733,740	17,887,553
Customer deposits	6,909,975	6,899,663
Compensated absences	1,789,027	1,758,087
Bonds payable	14,204,616	13,555,805
Total current liabilities	<u>43,924,857</u>	<u>43,761,935</u>
Noncurrent liabilities:		
Compensated absences	1,062,691	1,459,521
Post employment benefits	7,362,279	6,176,464
Net pension liability	16,721,796	2,182,421
Bonds payable	119,045,569	120,244,521
Total noncurrent liabilities	<u>144,192,335</u>	<u>130,062,927</u>
Total liabilities	<u>\$ 188,117,192</u>	<u>\$ 173,824,862</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions	\$ 795,331	\$ -
Total deferred inflows of resources	<u>\$ 795,331</u>	<u>\$ -</u>
NET POSITION		
Net investment in capital assets	112,362,525	109,449,829
Restricted for:		
Debt service	10,254,840	9,822,504
Unrestricted	<u>46,095,217</u>	<u>56,720,371</u>
Total net position	<u>\$ 168,712,582</u>	<u>\$ 175,992,704</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Revenues, Expenses, and Changes in Net Position
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Charges for services	\$ 221,215,135	\$ 227,244,632
OPERATING EXPENSES		
Personal services	18,412,110	20,958,925
Supplies	1,080,314	1,278,463
Maintenance	2,842,372	2,644,851
Purchase of fuel and power	147,496,656	153,230,408
Other services and charges	7,143,694	7,908,213
Depreciation and amortization	19,083,255	19,284,465
Total operating expenses	<u>196,058,401</u>	<u>205,305,325</u>
Operating income	<u>25,156,734</u>	<u>21,939,307</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	403,267	159,777
Disposition of assets	137,436	104,950
Miscellaneous	(1,656,984)	696,253
IRS Build America Bond subsidy	9,930	9,941
Interest expense on bonds	(4,063,993)	(4,281,770)
Total non-operating revenues (expenses)	<u>(5,170,344)</u>	<u>(3,310,849)</u>
Income before contributions and transfers	<u>19,986,390</u>	<u>18,628,458</u>
Capital contributions	44,621	9,222
Transfers, net	<u>(14,779,263)</u>	<u>(14,181,279)</u>
Change in net position	5,251,748	4,456,401
Net position - beginning	175,992,704	171,536,303
Change in accounting principle	(12,531,870)	-
Net position - beginning, as restated	<u>163,460,834</u>	<u>171,536,303</u>
Net position - ending	<u><u>\$ 168,712,582</u></u>	<u><u>\$ 175,992,704</u></u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Cash Flows
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 221,814,120	\$ 228,838,563
Payments to suppliers	(160,443,979)	(158,633,202)
Payments to employees	(18,412,110)	(20,958,925)
Other receipts (payments)	(1,647,054)	706,194
Net cash provided by operating activities	<u>41,310,977</u>	<u>49,952,630</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	85,122	299,111
Transfers out to other funds	(14,864,385)	(14,480,390)
Net cash used by noncapital and related financing activities	<u>(14,779,263)</u>	<u>(14,181,279)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(11,704,555)	(16,030,058)
Sale of capital assets	582,759	856,117
Principal paid on capital leases	-	(26,755)
Principal paid on bonds	(13,710,805)	(12,340,706)
Issuance of bonds	14,463,550	17,768,912
Bond issuance costs	(941,381)	(139,376)
Interest paid on bonds and capital leases	(4,971,382)	(5,168,924)
Capital grants and contributions	44,621	-
Net cash used for capital and related financing activities	<u>(16,237,193)</u>	<u>(15,080,790)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(13,527,183)	(20,364,578)
Interest earnings on cash and investments	410,055	148,604
Net cash used by investing activities	<u>(13,117,128)</u>	<u>(20,215,974)</u>
Net increase (decrease) in cash and cash equivalents	(2,822,607)	474,587
Cash and cash equivalents - beginning of year	10,463,109	9,988,522
Cash and cash equivalents - end of year	<u><u>7,640,502</u></u>	<u><u>10,463,109</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	25,156,734	21,939,307
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	19,083,255	19,284,465
Other income (expense)	(1,647,054)	706,194
Change in current assets and liabilities:		
Accounts receivable	598,985	1,593,931
Inventory	(1,615,564)	9,369
Accounts payable	2,901,368	(353,581)
Due to related party	(5,153,813)	5,177,539
Accrued liabilities	1,643,744	(48,629)
Customer deposits	10,312	552,772
Compensated absences and retirement benefits	333,010	1,091,263
Net cash provided by operating activities	<u>41,310,977</u>	<u>49,952,630</u>
Supplemental cash flow information:		
Noncash capital contributions and other changes	<u><u>\$ -</u></u>	<u><u>\$ 9,222</u></u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

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 are 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. LP&L operates in the Southwest Power Pool (SPP) and serves customers within the confines of the LP&L certificated areas as established by the Public Utility Commission of Texas (PUC). On October 29, 2010, LP&L purchased the majority of Southwestern Public Service Company's (SPS) Lubbock distribution assets for \$87,754,858. On September 24, 2015, LP&L announced its intent to join the Electric Reliability Council of Texas (ERCOT) and has initiated the process with the PUC and ERCOT. The goal is to interconnect with ERCOT by June 2019, to coincide with the termination of a current full-requirements contract with SPS.

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 operation 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 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, 2015 and 2014

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 investment grade municipal issuers. Restricted investments are investments that have been restricted for bond financed capital projects and debt service.

Accounts Receivable

Accounts receivable balances represent amounts due primarily from metered customers. Metered revenues for the first fifteen days of every month are attributable to billing cycles in the prior month; therefore, the first fifteen days of the first month after fiscal year-end are accrued and reported in accounts receivable. LP&L does not require collateral to support its accounts receivable. Management believes the recorded receivables, net of allowances totaling \$2,266,424, are collectible.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

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 estimated useful life of each asset, as follows:

Infrastructure/Improvements	10-60 years	Buildings	15-50 years
Vehicles	5 - 9 years	Equipment	3-15 years

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.

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 completed. LP&L capitalizes interest costs according to GASB Statement No. 62. LP&L capitalized interest of approximately \$407,577 net of interest earned during the fiscal year (FY) 2015 and \$263,838 net of interest earned during the FY 2014.

Net Position

Total net position includes net investment in capital assets, along with restricted and unrestricted net assets. 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 and deferred inflows 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, 2015 and 2014

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, liabilities, deferred inflows, 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 or expenses on the Statements of Revenues, Expenses, and Changes in Net Position. 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 2016 LP&L will implement GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. In FY 2018, LP&L will implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Change in Accounting Principles

This fiscal year, LP&L implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This statement establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. The effects of implementing this statement had a material effect on net position. The net pension liability totaled \$16,721,796 on the Statement of Net Position and was based on the total pension liability minus the fiduciary net position of the plans. LP&L also recognized a new measure of pension expense of \$2,580,138, which was different from our actuarially determined contributions (annual required contributions). See more information in Note 8: Retirement Plan. Note disclosures and required supplementary information are based on the new standard.

As a result of the implementation of GASB No. 68, LP&L recorded a prior period adjustment to FY 2015 beginning net position on the Statement of Revenues, Expenses, and Changes in Net Position. LP&L did not record a prior period adjustment to the previous FY 2014 net position by reason of practicality. In addition, LP&L was required to eliminate the net pension obligation that was previously reported in the financial statements with a prior period adjustment. This resulted in a downward restatement of previously reported net position totaling \$12,531,870.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

B. Significant Accounting Policies (continued)

In conjunction with GASB No. 68, LP&L also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This statement required that LP&L record a beginning deferred outflow of resources for contributions made between the measurement date of December 31, 2013 and fiscal year-end of September 30, 2014.

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. LP&L also has deferred outflows for pensions related to contributions and investment experience.

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 deferred inflows include pension actuarial differences in expected and actual experience.

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. The City's investment policy related to custodial credit risk requires compliance with the provisions of the Texas Public Funds Collateral 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, 2015, City bank balances were not exposed to custodial credit risk as follows:

Insured	\$ 750,000
Uninsured and collateral held by a third party financial institution in the City's name	<u>26,846,873</u>
Total	<u>\$27,596,873</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

At September 30, 2015 and 2014, LP&L had the following investments and maturities:

Type	30-Sep-15			30-Sep-14		
	Maturities in Years			Maturities in Years		
	Fair Value	Less		Fair Value	Less	
		Than 1	1-5		Than 1	1-5
Federal Home Loan Banks (FHLB)	\$ 4,748,985	\$ 1,452,681	\$ 3,296,304	\$ 4,298,520	\$ 205,808	\$ 4,092,712
Federal Farm Credit Bank (FFCB)	\$ 2,651,516	792,134	1,859,382	3,083,952	414,296	2,669,656
Federal Home Loan Mortgage Corp. (FHLMC)	\$ 4,462,066	409,878	4,052,188	6,580,760	-	6,580,760
Federal National Mortgage Association (FNMA)	\$ 2,235,980	814,978	1,421,002	3,680,939	206,031	3,474,908
Municipal Bonds	\$ 4,046,530	1,780,261	2,266,269	841,689	190,203	651,486
Certificate of Deposit	\$ 128,618	128,618	-	125,547	125,547	-
Money market mutual funds	\$ 19,787	19,787	-	19,734	19,734	-
State Investment Pools *	\$ 73,003,184	73,003,184	-	59,138,343	59,138,343	-
Total	\$ 91,296,666	\$ 78,401,521	\$ 12,895,145	\$ 77,769,484	\$ 60,299,962	\$ 17,469,522

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

Investment in State Investment Pools

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

TexSTAR's governing body is a five-member board of directors (the "Board"). Three directors are officers or employees of Participants; one director is an officer or employee of First Southwest Company, LLC; and the final director is an officer or employee of an affiliate of J.P. Morgan Investment Management Inc. TexSTAR's Bylaws also require the Board to appoint an advisory board. The Advisory Board currently consists of six members, each of whom is either (1) a representative of a Participant or (2) a person who has no business relationship with the Board, but who is qualified to advise the Board. The Advisory Board shall at all times include at least one member of each such designation.

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 limits final maturity to no more than five (5) years. The City uses the specific identification method for positions in fixed-rate securities. The local government investment pools (LGIPs) utilized by the City have laddered maturities within their funds, yet are redeemable in full within one day to the governments investing in the LGIPs.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

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, 2015, Standard & Poor's rated the investment pools AAAm. The senior unsecured debt for investments in the FHLB, FFCB, FHLMC, and FNMA are rated AA+ by Standard & Poor's (S&P) and Aaa by Moody's. The municipal bond investments are rated between an AAA and AA- by S&P and between an A1 and Aaa by Moody's.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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. FNMA, FFCB, FHLMC, FHLB and Municipal Bond 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, 2015, LP&L's investments constituted the following percentages of total investments: State Investment Pools – 81.51%, FHLB – 4.80%, FHLMC – 4.51%, Municipals Bonds – 4.09%, FFCB – 2.68%, FNMA – 2.26%, Certificates of Deposit - 0.13%, and Money Market Mutual Funds – 0.02%.

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.

NOTE 3: INTERFUND TRANSACTIONS

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

At September 30, 2015 and 2014, LP&L had no internal financing.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 3: INTERFUND TRANSACTIONS (continued)

Net transfers out totaling \$14,779,263 for FY 2015 from LP&L to other City funds were the result of 1) General Fund indirect cost allocations, totaling \$1,146,225; 2) payments to WTMPA for management and administration, totaling \$844,275; 3) City franchise fee equivalents totaling \$10,728,237; 4) Payment in lieu of taxes totaling \$2,145,648; offset by a transfer in from the City's Water Fund totaling \$85,122.

Net transfers out totaling \$14,181,279 for FY 2014 from LP&L to other City funds were 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.

NOTE 4: INVENTORY

In FY 2015, all LP&L inventory was transferred from the City's Warehouse Internal Service Fund financial statements to LP&L's financial statements. The inventory at September 30, 2015 and 2014 was \$1,734,860 and \$119,296, respectively and was comprised of equipment and repair parts used in the maintenance and operations of the utility.

NOTE 5: PREPAID EXPENSES

The total prepaid expenses included in noncurrent assets, totaling \$1,877,776 in 2015 and \$2,011,109 in 2014, 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 \$1,328,208 in 2015 and \$1,593,906 in 2014, 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, 2015 and 2014

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Not Depreciated:				
Land	\$ 16,613,202	\$ 44,621	\$ -	\$ 16,657,823
Construction in Progress	16,074,101	11,355,128	16,587,842	10,841,387
Total Capital Assets Not Depreciated	32,687,303	11,399,749	16,587,842	27,499,210
Capital Assets Depreciated:				
Buildings	8,506,237	234,538	-	8,740,775
Improvements Other than Buildings	316,031,146	8,028,790	869,518	323,190,418
Machinery and Equipment	68,872,059	8,629,319	24,459	77,476,919
Total Capital Assets Depreciated	393,409,442	16,892,647	893,977	409,408,112
Less Accumulated Depreciation:				
Buildings	4,537,164	321,827	-	4,858,991
Improvements Other than Buildings	159,969,390	15,046,242	424,196	174,591,436
Machinery and Equipment	33,937,882	3,316,155	24,459	37,229,578
Total Accumulated Depreciation:	198,444,436	18,684,224	448,655	216,680,005
Total Capital Assets Depreciated, Net	194,965,006	(1,791,577)	445,322	192,728,107
Capital Assets, Net	\$ 227,652,309	\$ 9,608,172	\$ 17,033,164	\$ 220,227,317

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 7: CAPITAL ASSETS (continued)

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

	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

Construction Commitments

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

Construction Commitments at September 30, 2015:

Original Commitments	Spent-to-Date	Remaining Commitments
\$ 78,178,006	\$ 38,848,345	\$ 39,329,661

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 8: RETIREMENT PLAN

The City participates in the Texas Municipal Retirement System (TMRS) for its retirement plan. All eligible employees of LP&L are required to participate in TMRS. Neither the City nor LP&L maintains the accounting records, holds the investments, or administers the retirement plan.

The total of LP&L's net pension liabilities, deferred outflows of resources, and deferred inflows of resources related to pensions as of September 30, 2015 and the pension expense for the year then ended is as follows:

	<u>TMRS</u>
Net pension liability:	\$ 16,721,796
Deferred outflows of resources:	\$ 3,289,751
Deferred inflows of resources:	\$ 795,331
Pension expense:	\$ 2,580,138

Plan Description

LP&L provides pension benefits for all of its full-time employees through the City's pension benefits plan. The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code.

TMRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information 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.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the City Council, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 8: RETIREMENT PLAN (continued)

The adopted plan provisions were as follows:

	Plan Year 2015	Plan Year 2014
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

Contributions

The contribution rate for LP&L employees is 7% of employee gross earnings, and the city matching percentage is 200%, both as adopted by the City Council. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The contribution rates for LP&L were 18.57% and 19.02% in calendar years 2015 and 2014, respectively. LP&L's contribution to TMRS for the year ended September 30, 2015, was \$3,063,920, and was equal to the required contributions.

Net Pension Liability

LP&L's net pension liability (NPL) was measured as of December 31, 2014, and the total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB (a new mortality improvement scale that may be used in pension valuations which was released by The Society of Actuaries' Retirement Plans Experience Committee) to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 8: RETIREMENT PLAN (continued)

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Those assumptions were first used in the December 31, 2013 valuation, along with a change to EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Estate	10.0%	1.75%
Real Return	5.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specific in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 8: RETIREMENT PLAN (continued)

<u>Changes in the Net Pension Liability</u>	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at September 30, 2014	\$110,499,122	\$ 93,457,262	\$ 17,041,860
Changes for the year:			
Service cost	2,528,145	-	2,528,145
Interest	7,639,097	-	7,639,097
Change of benefit terms	-	-	-
Difference between expected and actual experience	(1,012,979)	-	(1,012,979)
Changes of assumptions	-	-	-
Contributions – employer	-	3,061,656	(3,061,656)
Contributions – employee	-	1,127,051	(1,127,051)
Net investment income	-	5,346,027	(5,346,027)
Benefit payments, including refunds of employee contributions	(5,266,488)	(5,266,488)	-
Administrative expense	-	(55,818)	55,818
Other changes	-	(4,589)	4,589
Net changes	\$ 3,887,775	\$ 4,207,839	\$ (320,064)
Balance at September 30, 2015	\$114,386,897	\$ 97,665,101	\$ 16,721,796

Sensitivity of the NPL to Changes in the Discount Rate

The following represents the NPL of LP&L, calculated using the discount rate of 7.0%, as well as what LP&L's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7%)	1% Increase in Discount Rate (8.0%)
LP&L's net pension liability	\$32,441,131	\$16,721,796	\$3,800,014

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 8: RETIREMENT PLAN (continued)

Pension Expense and Deferred Outflow of Resources and Deferred Inflows of Resources (Related to Pensions)

For the year ended September 30, 2015, LP&L recognized pension expense of \$2,580,138. At September 30, 2015, LP&L reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ -	\$ 795,331
Difference between projected and actual investment earnings	956,785	-
Contributions subsequent to the measurement date	2,332,966	-
Total	\$ 3,289,751	\$ 795,331

The amount, totaling \$2,332,966, reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability as of September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:	
2016	\$ 21,548
2017	21,548
2018	21,548
2019	96,810
Total	\$ 161,454

NOTE 9: OTHER POSTEMPLOYMENT 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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (continued)

Neither the City nor LP&L issue stand-alone financial statements for the plan, but all required information is presented in the City's CAFR.

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 657 active participants who pay monthly premiums of \$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. 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	\$1,796,382
Interest on net OPEB obligation	283,478
Adjustment to the ARC	<u>(262,640)</u>
Annual OPEB Cost	1,817,220
Total annual employer contribution (pay-as-you-go)	<u>(631,405)</u>
 Increase in net OPEB obligation	 1,185,815
Net OPEB obligation – beginning of year	<u>6,176,464</u>
Net OPEB obligation – end of year	<u>\$7,362,279</u>

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2013	\$1,716,992	27.9%	\$4,981,673
09/30/2014	1,739,431	31.3%	6,176,464
09/30/2015	1,817,220	34.7%	7,362,279

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (continued)

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 12.49 percent, hence, LP&L's accrued liability for benefits was \$19,368,497 and the actuarial value of assets was \$0, resulting in an UAAL totaling \$19,368,497. The covered payroll (annual payroll of active employees covered by the plan) was \$13,861,287, 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.

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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

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 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 the City nor LP&L provide administrative services or have any fiduciary responsibilities for these plans; therefore, they are not presented in the Basic Financial Statements.

NOTE 11: LONG-TERM LIABILITIES

General Obligation Bonds and Certificates of Obligation

The City issued General Obligation Bonds and Certificates of Obligation on behalf of LP&L. The amounts are as follows:

Average Interest Rate	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-15*	Balance Outstanding 9-30-14**
4.26	08-15-05	02-15-25	\$ 2,670,000	\$ -	\$ 125,000
4.58	04-15-06	02-15-26	6,077,282	595,000	870,000
4.42	01-01-07	02-15-34	5,835,000	4,240,000	5,835,000
4.88	08-15-07	08-15-27	13,176,658	1,202,284	9,960,462
4.42	04-15-08	08-15-27	6,498,295	878,021	5,233,173
4.53	03-01-09	08-15-29	6,936,647	5,579,688	5,856,466
2.70	02-15-10	02-15-30	5,410,997	4,426,070	4,667,227
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	685,000	1,340,000
1.61	04-15-13	04-15-21	5,990,000	5,615,000	5,855,000
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	2,950,000	4,470,000
2.37	04-15-15	04-15-28	12,840,000	12,840,000	-
Total			<u>\$75,062,323</u>	<u>\$42,153,507</u>	<u>\$47,354,772</u>

* Balance outstanding excludes \$3,614,274 of net bond premiums and discounts.

** Balance outstanding excludes \$2,007,273 of net bond premiums and discounts.

At September 30, 2015, City and 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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 11: LONG-TERM LIABILITIES (continued)

Electric Revenue Bonds

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-15*	Balance Outstanding 9-30-14**
2.45	10/15/10	4/15/20	\$ 73,295,000	\$ 39,650,000	\$ 46,555,000
1.90	05/21/13	4/15/24	16,570,000	13,390,000	14,960,000
3.09	05/01/14	4/15/34	16,245,000	15,320,000	16,245,000
3.41	04/15/15	4/15/35	11,865,000	11,865,000	-
Total			<u>\$ 117,975,000</u>	<u>\$ 80,225,000</u>	<u>\$ 77,760,000</u>

* Balance outstanding excludes \$7,257,404 of net bond premiums and discounts.

** Balance outstanding excludes \$6,678,281 of net bond premiums and discounts.

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

Fiscal Year	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2015-16	\$ 4,144,616	\$ 1,780,159	\$ 10,060,000	\$ 3,476,834
2016-17	4,436,695	1,628,877	10,470,000	3,050,106
2017-18	4,443,266	1,472,551	10,905,000	2,591,756
2018-19	3,075,468	1,324,339	11,405,000	2,072,156
2019-20	3,222,284	1,183,016	11,825,000	1,627,006
2020-24	15,223,419	3,619,894	12,970,000	4,146,456
2025-29	7,607,759	641,864	5,955,000	2,286,219
2030-35	-	-	6,635,000	876,156
Totals	<u>\$ 42,153,507</u>	<u>\$ 11,650,700</u>	<u>\$ 80,225,000</u>	<u>\$ 20,126,689</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 11: LONG-TERM LIABILITIES (continued)

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2015 and 2014 are as follows:

Fiscal Year 2015	Balance 9/30/2014	Additions	Deletions	Balance 9/30/2015	Due in one year
LP&L activities:					
General Obligation Bonds	\$47,354,772	\$12,995,000	\$18,196,265	\$42,153,507	\$4,144,616
Revenue Bonds	77,760,000	11,865,000	9,400,000	80,225,000	10,060,000
Bond Premiums	8,685,554	3,489,011	1,302,887	10,871,678	-
Capital Leases	-	-	-	-	-
Compensated Absences	3,217,608	1,399,777	1,765,667	2,851,718	1,789,027
Other Postemployment Benefits	6,176,464	1,185,815	-	7,362,279	-
Net Pension Obligation*	17,041,860	10,227,649	10,547,713	16,721,796	-
Total LP&L activities	\$160,236,258	\$41,162,252	\$41,212,532	\$160,185,979	\$15,993,643

Fiscal Year 2014	Balance 9/30/2013	Additions	Deletions	Balance 9/30/2014	Due in one year
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
Bond Premiums	7,934,188	1,818,912	1,067,545	8,685,554	-
Capital Leases	27,349	-	27,349	-	-
Compensated Absences	3,337,650	1,523,912	1,643,954	3,217,608	1,758,087
Other Postemployment 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	\$139,952,244	\$25,314,129	\$19,889,554	\$145,376,819	\$15,313,892

*The Net Pension Obligation that was previously reported has been eliminated and the Net Pension Liability has been recorded per the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

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 2015, The City issued \$11,865,000 Electric Light and Power System Revenue Bonds, Series 2015 (Bonds), with interest rates from 2.25% to 5.00%. The Bonds at year end have an unamortized premium totaling \$1,467,079. Bond proceeds totaling \$13,208,423 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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 11: LONG-TERM LIABILITIES (continued)

In May 2015, the City issued \$129,665,000 General Obligation Refunding Bonds, Series 2015 (Bonds), with interest rates from 1.00% to 5.00%. LP&L's portion was \$12,995,000 with a premium totaling \$2,107,370 at year end and a deferred loss totaling \$898,799 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 8.97% savings on refunded bonds. The debt will be legally defeased in 2018.

General Obligation Bonds and Certificates of Obligation are payable from a combination of (i) the proceeds of continuing direct annual ad valorem tax, levied within the limits prescribed by law, on all taxable property within the City, and (ii) a pledge of surplus net revenues of the City's Waterworks System not to exceed \$1,000. Electric Light and Power System Revenue Bonds are secured by a first lien on and pledge of the Net Revenues of the City's Electric Light and Power System. The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation.

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 had an unamortized premium totaling \$1,211,461. 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 \$643,525 at year end and a deferred loss totaling \$117,934 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 prior years, the City defeased bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government's financial statements. At September 30, 2015, the City had \$196,830,000 of defeased bonds remain outstanding of which \$17,424,025 is defeased debt associated with the Electric Light and Power System.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

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 with continuous coverage through September 30, 2009. Effective on October 1, 2009 the City purchased workers' 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 inter-local agreements among members. The City obtains workers' compensation coverage through a guaranteed-cost plan. Guaranteed-cost members combine their contributions to cover pooled losses and expenses.

As required by an inter-local 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. 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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014

NOTE 12: RISK MANAGEMENT (continued)

Additionally, property and boiler coverage is accounted for in the Risk Management Fund. The property insurance policy was purchased from an outside insurance carrier. The policy has a \$250,000 deductible per occurrence, and the boiler coverage insurance deductible is up to \$500,000 dependent upon the unit. Premiums are charged to funds based upon estimated premiums for the upcoming year. Departments that sustain property damage in excess of \$10,000 are eligible to request assistance from the Risk Management Fund for payment of those damages up to the \$250,000 policy deductible. Other small insurance policies, such as surety bond coverage and miscellaneous floaters, are also accounted for in the Risk Management Fund. LP&L is charged based on premium amounts and administrative charges. Settlements in the current year and preceding two years have not exceeded insurance coverage. The City accounts for all insurance activity in its Internal Service Funds.

NOTE 13: HEALTH INSURANCE

LP&L participates in the City's medical and dental insurance programs. LP&L provides medical and dental insurance for all full-time employees that are accounted for in the City's Health Benefits Fund. Revenue for the health insurance program is generated from each cost center based upon the number of active full-time employees. The City's plan is self-insured under an Administrative Services Only Agreement. The City purchases excess coverage 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 was \$1.67 million at September 30, 2015 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. The following represents the significant litigation against the City that relates to LP&L during the time period covered by the Basic Financial Statements.

Akeelah Lockett (minor child) v. City of Lubbock

Plaintiff sued the City after suffering electrical burns upon entering an LP&L transformer box. A settlement in the amount of \$1,475,000 was finalized in November 2015, of which \$500,000 was accrued in the City of Lubbock Risk Management Fund. The balance was paid by City of Lubbock insurance.

**Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2015 and 2014**

NOTE 14: LITIGATION (continued)

Texas Tech University v. City of Lubbock

Plaintiff has claimed an overpayment of approximately \$3,900,000 million was received by LP&L under a Power Purchase Agreement, but no claim has been filed. The City intends to vigorously defend itself in this 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. After ongoing negotiations between the parties involved, an offer of \$1,600,000 was made by LP&L and has therefore been recorded as an accrued expense on the FY 2015 financial statements in relation to this case.

Ramar Communications v. City of Lubbock

The Plaintiff is claiming property damage to television broadcasting equipment as a result of an electric outage that occurred in January 2015.

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, 2015, and the expected remaining liability is \$108,000 as recorded in accrued liabilities on the Statement of Net Position.

**Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2015**

**LP&L's Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System (TMRS)**

Total pension liability

Service Cost	\$ 2,528,145
Interest (on the total pension liability)	7,639,097
Changes of benefit terms	
Difference between expected and actual experience	(1,012,979)
Change of assumptions	
Benefit payments, including refunds of employee contributions	(5,266,488)
Net Change in Total Pension Liability	3,887,775
Total Pension Liability - Beginning	110,499,122
Total Pension Liability - Ending (a)	<u><u>\$ 114,386,897</u></u>

Plan Fiduciary Net Position

Contributions - Employer	\$ 3,061,656
Contributions - Employee	1,127,051
Net Investment Income	5,346,027
Benefit payments, including refunds of employee contributions	(5,266,488)
Administrative Expense	(55,818)
Other	(4,589)
Net Change in Plan Fiduciary Net Position	4,207,839
Plan Fiduciary Net Position - Beginning	93,457,262
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 97,665,101</u></u>
LP&L's Net Pension Liability - Ending (a) - (b)	\$ 16,721,796
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.38%
Covered Employee Payroll	16,080,396
LP&L's Net Pension Liability as a Percentage of Covered Employee Payroll	103.99%

NOTE: LP&L implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of the measurement date (December 31st) of the net pension liability and will ultimately contain information for ten years.

**Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2015**

**LP&L's Schedule of Contributions
Texas Municipal Retirement System (TMRS)**

	<u>2015</u>
Actuarially Determined Contribution	\$ 3,063,920
Contributions in relation to the actuarially determined contribution	<u>3,063,920</u>
Contribution deficiency (excess)	-
 Covered employee payroll	 <u>16,406,171</u>
Contributions as a percentage of covered employee payroll	 <u>18.68%</u>

**Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2015**

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates are calculated as of December 31st and become effective in January (12 months and one day later).

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years
Asset Valuation Method	10 Year smoothed market, 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
Mortality	RP2000 Contributed Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%, and projected on a fully generational basis with scale BB.

Other Information

Notes: There were no benefit changes during the year.

NOTE: LP&L implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of LP&L's most recent fiscal year end (September 30th) and will ultimately contain information for ten years.

Other Postemployment Benefit Plan (OPEB)¹

Valuation Date	Plan	Assets (a)	(AAL) (b)	(UAAL) (b-a)	Percentage (a/b)	Payroll (c)
10/1/07	OPEB	-	81,918,738	81,918,738	-	88,185,412
10/1/09	OPEB	-	126,167,945	126,167,945	-	95,693,148
10/1/11	OPEB	-	154,305,935	154,305,935	-	108,102,087
10/1/13	OPEB	-	155,021,339	155,021,339	-	110,942,802

¹Health/Dental Care Insurance Plan

**Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2015**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into 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 detailed discussion of the actuarial assumptions used for the City of Lubbock Retiree Health Care Plan Actuarial Valuation Report as of October 1, 2013 can be obtained from the City.



Acknowledgements

LP&L would like to thank the City of Lubbock Accounting Department for their assistance in preparing the FY 2014-15 LP&L Annual Financial Report. Preparation of this report would not have been possible without the timely cooperation and assistance of the following individuals:

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Zane Graham
Kevin Rule

Acting Executive Director of Finance
Accounting Supervisor
Senior Accountant
Senior Accountant
Senior Accountant
Senior Accountant
Debt & Investment Analyst



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