Annual Financial Report

Fiscal Years Ended September 30, 2016 and 2015

Annual Financial Report

For the Fiscal Years Ended September 30, 2016 and 2015

LP

Annual Financial Report

Elected, Appointed and Principal Officials

City Council

Daniel M. Pope	Mayor
Latrelle Joy	Mayor Pro Tem – District 6
Juan A. Chadis	Council Member – District 1
Shelia Patterson Harris	Council Member – District 2
Jeff Griffith	Council Member – District 3
Steve Massengale	Council Member – District 4
Karen Gibson	Council Member – District 5

Electric Utility Board

Greg Taylor	Chair
Don Boatman	Vice Chair
James Conwright	Secretary
Jerry Bell	Board Member
Charles Dunn	Board Member
Jane U. Henry	Board Member
Stephanie Hill	Board Member
Daniel L. Odom	Board Member
Drew Tucker	Board Member
Daniel M. Pope	Ex-Officio Member

Principal Officials and Financial Management

David McCalla	Director of Electric Utilities
Richard Casner	General Counsel – LP&L
Andy Burcham	Assistant Director of Electric Utilities/CFO
Blair McGinnis	Chief Operating Officer
Chad Sales	Financial Planning and Analysis Manager
Jarisa Larsen	Senior Accountant

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Annual Financial Report

For the Fiscal Years Ended September 30, 2016 and 2015

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Lubbock Power and Light
City Electric System
Introduction
For the Years Ended September 30, 2016 and 2015

Lubbock Power and Light (LP&L) is pleased to present its Basic Financial Statements for the fiscal years ended September 30, 2016 and 2015. 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.

BKD LLP
CPAs & Advisors

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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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension/other 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 10, 2017

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, 2016 (FY 2016), compared to the fiscal year ended September 30, 2015 (FY 2015). 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.

<u>Statement of Net Position</u>: This statement includes LP&L's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. It also provides information about the nature and amount of assets and obligations (liabilities) of LP&L and 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, net 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.

Deferred outflows of resources are a consumption of net assets by LP&L that are applicable to a future reporting period and are reported as a separate section following assets in the Statement of Net Position. LP&L's deferred outflows of resources include deferred charges on refunding and deferred outflows from pensions (contribution and investment expense).

Consistent with the reporting of assets, liabilities are segregated into current and noncurrent categories. Current liabilities include net 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, other postemployment benefits (OPEB), net pension obligation, and net long-term debt.

Deferred inflows of resources are an acquisition of net assets by LP&L that are applicable to a future reporting period and are reported as a separate section following liabilities in the Statement of Net Position. LP&L's deferred inflows of resources include deferred inflows from pensions. Both the deferred inflows and deferred outflows are reported in accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

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. Operating expenses are presented by major cost categories, including personal services, supplies, maintenance, purchase of fuel and power, other services and charges, and depreciation and amortization. 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 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 financial 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 once 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 PPRF cap totaling five percent of total annual forecasted purchased power costs was established to manage any monthly over-recovery of purchased power costs. If at any time the cumulative over-collection balance is greater than the balancing account cap, a downward adjustment may be made to the PPRF with the intention of refunding the over-recovered amount. Additionally, a rate stabilization fund totaling $3.5 million was set aside to cushion any monthly under-recovery of purchased power costs. If at any time the cumulative under-collection balance draws down the rate stabilization fund, an upward 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, 2016, the $2.2 million over-recovery from FY 2015 was fully refunded to customers and purchased power costs exceeded purchased power revenues on a cumulative basis by approximately $6.0 million. The financial statements recognize the under-collection as an accounts receivable on the Statement of Net Position and incorporates the associated revenue on the Statement of Revenue, Expense, and Changes in Net Position.

LP&L ended FY 2015 over-collected by $2.2 million and continued to over-collect through January 2016. At the end of January 2016, the PPRF was over-collected $7.0 million as a result of lower than projected natural gas prices. Effective February 1, 2016, the Board voted on a mid-season adjustment to lower the energy and demand rates approximately 17% to refund the PPRF over-collection. This adjustment was to align purchased power revenues with purchased power costs.

Southwestern Public Service Company (SPS) performs a true-up calculation of costs from the previous calendar year annually in July. This true-up is allowed under their Federal Energy Regulatory Commission (FERC) form template and is also provided for in the total requirements contract between SPS and LP&L. According to SPS, the true-up of $3.8 million was much larger than anticipated due to higher than expected costs and lower than expected energy sales volumes to spread their costs.

The $3.8 million true-up, in conjunction with the planned PPRF refund, drove the PPRF fund from an over-collected balance of $2.9 million in June 2016, to an under-collected position of $3.6 million in July. In August 2016, an additional $0.5 million was under-collected as a result of the PPRF refund that was still in effect. Fuel costs increased significantly in September 2016 as a result of wind curtailment costs, congestion costs, and higher natural gas costs in the Southwest Power Pool's (SPP) Integrated Marketplace (IM). The unexpected costs at year-end increased the under-collected balance to $6.0 million, as seen in the detailed table below:

PPRF Fund (in millions)	09/15	10/15	11/15	12/15	01/16	02/16	03/16	04/16	05/16	06/16	07/16	08/16	09/16
Monthly Over/(Under)	$ -	$ 1.6	$ 0.8	$ (1.4)	$ 3.9	$ 0.9	$ (0.2)	$ (0.5)	$ (1.6)	$ (2.8)	$ (6.4)	$ (0.6)	$ (1.9)
Cumulative Over/(Under)	$ 2.2	$ 3.8	$ 4.6	$ 3.2	$ 7.1	$ 8.0	$ 7.8	$ 7.3	$ 5.7	$ 2.9	$ (3.5)	$ (4.1)	$ (6.0)

Base Rate Adjustment – Rates are set by the Board and approved by the City Council. On September 10, 2015, the City Council approved a 5.75 percent adjustment to LP&L's base rates, which became effective on October 1, 2015. 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 financial model. The base rate adjustment impacted FY 2016 revenues as anticipated in the FY 2016 operating budget.

Unit Contingent / Power Marketing – Two unit contingent agreements (UCA) with 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 SPP IM on LP&L's behalf since LP&L is not a registered member of SPP.

In FY 2016, the total revenue produced by the LP&L generating units was $3.6 million, compared to $3.2 million in FY 2015. Of the $3.6 million, power marketing activities produced $2.9 million in revenue, and the SPS capacity and energy payments produced $0.7 million in revenue. Power marketing revenues increased $1.4 million primarily due to warmer temperatures experienced during the summer of 2016 and because the units were available for twelve months during 2016, compared to only six months of availability during 2015.

The SPS payments decreased from $1.7 million in 2015 to $0.7 million in 2016. SPS continued to make capacity and energy payments of $2,120 per megawatt each month and $3.50 per megawatt hour for the energy produced at the Cooke units; however, the production at Cooke Station decreased dramatically in FY 2016 based on the mothball status of the Cooke steam units. On March 31, 2016, SPS and LP&L mutually agreed to place the Cooke Station steam units into cold storage until they are potentially needed again after the total requirements contract with SPS ends in June 2019. Cooke Station also experienced unplanned outages on the two gas turbines for the majority of 2016. SPS pays a capacity payment to LP&L based on the generating units' availability; thus, due to the cold storage of the steam units and unplanned outages of the gas turbines, the capacity payments were reduced by $0.9 million from the prior year. Energy payments at Cooke station decreased $0.1 million in 2016 as a result of the limited operations.

Capital Program – A total of 22 new capital projects and 7 existing capital projects were funded during FY 2016, totaling $19.5 million. The blend of funding sources used for these projects was composed of 58.1 percent equity and 41.9 percent debt. The blend of financing is reviewed annually to determine if any adjustments are necessary, but is set at 35 percent equity and 65 percent debt in the financial model over the 5-year planning horizon. The significant projects funded during the fiscal year included the Chalker substation capacity upgrade, totaling $11.3 million; distribution transformers, totaling $2.6 million; underground electric lines, totaling $2.3 million; overhead lines, totaling $2.2 million; line extension for a large commercial customer, totaling $1.0 million; renovation and upgrade to remodel the current dispatch control facility, totaling $1.1 million; and engineering and design of a controls upgrade at Massengale station, totaling $1.0 million.

A total of 23 capital projects, totaling $11.9 million, were completed and closed in FY 2016 and were moved from construction in progress to the appropriate capital asset category. The significant projects completed in FY 2016 included:

- Vehicles and Equipment ($3.7 million) – the purchase of new vehicles and equipment to replace existing items in the fleet that exceeded the useful life.
- Oliver Substation Transformer Capacity Upgrade ($2.5 million) – the purchase of one new 30/40/50 megavolt ampere (MVA) substation power transformer to provide adequate capacity and reliability to southwest Lubbock.

- Geographic Information System (GIS) Improvements ($1.9 million) – the purchase of hardware, software, and equipment that were used to convert existing LP&L facility maps into a GIS database.

Debt Issuance – In FY 2016, LP&L issued $7.5 million in revenue bonds. The Bonds that were issued funded capital projects in the FY 2016 Capital Program. The Bonds were issued at a premium of $0.8 million and the true interest cost for this issuance was 3.04 percent. The City also issued General Obligation Refunding Bonds, with LP&L's share being approximately $3.1 million. The Bonds were issued at a premium of $0.6 million and a deferred loss totaling $0.3 million at year end. The refunding transactions resulted in decreased total debt service requirements with over 11.78 percent savings on the refunded bonds. The true interest cost for this issuance was 2.41 percent.

Meter Growth – LP&L's meter base totaled 104,103 and 103,475 meters at September 30, 2016 and 2015, respectively. The 2016 meter increase of 0.61 percent is in line with normal growth levels within LP&L's certificated area.

RESULTS OF OPERATIONS

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

	2016	2015	2014
Program revenues			
Charges for services	$ 222,951,614	$ 221,215,135	$ 227,244,632
General revenues			
Investment earnings	491,350	403,267	159,777
Other revenues (expenses)	(1,586,601)	(1,509,618)	811,144
Total revenues	221,856,363	220,108,784	228,215,553
Program expenses (including interest)	199,270,009	200,122,394	209,587,095
Contributions	85,741	44,621	9,222
Excess before transfers	22,672,095	20,031,011	18,637,680
Transfers	(14,757,142)	(14,779,263)	(14,181,279)
Change in net position	7,914,953	5,251,748	4,456,401
Net position, beginning of year *	168,712,582	163,460,834	171,536,303
Net position, end of year	**$ 176,627,535**	**$ 168,712,582**	**$ 175,992,704**

* 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.

Total Revenues and Non-Operating Income

FY 2016 – Program revenues totaled $223.0 million, representing a 0.78 percent increase from FY 2015. The following is a breakdown of program revenues by major category:

Revenues	2016	2015	Change
General Consumers Metered	$ 216,142,337	$ 214,564,752	$ 1,577,585
Power Mkt / Unit Contingent	3,622,566	3,174,821	447,745
Fees, Charges, and Other	3,954,135	4,135,273	(181,138)
Uncollectible Accounts	(767,424)	(659,711)	(107,713)
Total	$ 222,951,614	$ 221,215,135	$ 1,736,479

The primary driver in program revenues was an increase of $1.6 million in metered revenues. The increase in metered revenues was related to the 5.75 percent base rate adjustment that became effective on October 1, 2015 and was partially offset by the decreased PPRF rates necessary to refund the $2.2 million over-collection of PPRF revenues in FY 2015. The base rate adjustment was also offset by lower revenues to cover reduced purchased power costs as a result of lower natural gas prices and the intentional under-collection of purchased power revenues from February through September 2016, as discussed in detail in the section titled "Financial Highlights".

An additional increase in program revenue was due to higher power marketing/unit contingent revenues, which is also described in the "Financial Highlights" section of this document. Offsetting the increased revenue were decreases in other charges that were driven by lower meter reconnect fees and fewer street light installations during the fiscal year. The uncollectible accounts expense increased as a result of larger charge-offs from FY 2013-14.

Non-operating income was mainly comprised of investment earnings. Investment earnings increased from $0.4 million in FY 2015 to $0.5 million in FY 2016, or 21.8 percent, as a result of the Federal Reserve raising the fed funds target rate by 25 basis points in December 2015.

FY 2015 – Program revenues were $221.2 million, representing a 2.65 percent increase from FY 2014. The 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 in 2015 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:

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

Calculation beginning in FY 2014:

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

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 percent 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) 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 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.

Operating Expenses

<u>FY 2016</u> – Program expenses, excluding interest expense, were $195.2 million, representing a 0.5 percent decrease from FY 2015. The cost of purchased fuel and power, totaling $145.9 million, represented 74.7 percent of total program expenses and decreased $1.6 million from FY 2015. The decline was due to decreased fuel costs, which are highly correlated to natural gas prices. Natural gas prices averaged $3.15 per one million British thermal units (MMBtu) during FY 2015 and $2.36 per MMBtu during FY 2016. Although fuel costs were down significantly in 2016, the savings were offset by higher transmission and energy costs in the SPP IM, as shown below:

Purchased Power Costs	2016	2015	Change
Fuel	$ 70,689,339	$ 79,440,733	$ (8,751,394)
Transmission	21,625,070	18,071,532	3,553,538
Demand	40,585,944	40,558,784	27,160
Energy	12,955,834	9,425,608	3,530,226
Total	$ 145,856,186	$ 147,496,656	$ (1,640,470)

Program expenses, excluding purchased power costs and interest expense, totaled $49.3 million, an increase of $0.7 million, or 1.6 percent, compared to FY 2015. The increase was made up of $1.4 million in personal services and $0.4 million in other services and charges, offset by a $0.7 million decrease in maintenance, $0.3 million decrease in depreciation and amortization, and a $0.1 million decrease in supplies.

Personal services expense increased due to a $1.5 million increase in pension expense as a result of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. For more details, see "Note 8: Retirement Plan" in the Notes to the Financial Statements. This category was also up due to a $0.2 million increase in other post-employment benefits (OPEB) related to assumption changes in the investment rate of return from 4.50 percent to 4.25 percent. This change in the investment rate of return increased the annual required contribution (ARC) and associated OPEB liabilities that are actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. For additional information, see "Note 9: Other Post-Employment Benefits (OPEB)" in the Notes to the Financial Statements. These two increases were offset by a $0.3 million decrease in benefits, which included a $0.1 million decrease in health and dental premiums and a $0.2 million decrease in TMRS contributions.

Other Services and Charges increased as a result of consulting costs for the FERC asset evaluation study, as discussed in the section titled "Capital Assets, Net", and for legal and engineering services related to the 2019 ERCOT integration. Maintenance decreased due to lower maintenance costs for underground and overhead infrastructure compared to the previous fiscal year.

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. 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 Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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.

Non-Operating Expenses and Transfers

FY 2016 – Interest and debt-related expense was unchanged from FY 2015, at $4.1 million. Miscellaneous expense totaling $1.6 million decreased approximately $0.1 million due partially to an accrued expense of $1.2 million recorded in relation to a contract claim with the Texas Tech University System (TTUS), compared to $1.6 million that was recorded in FY 2015 for the claim. Both entries were 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 Notes to the Financial Statements. The $0.4 million decrease in expense from contract claims was offset by a $0.2 million increase in street light transfers to the City and a $0.1 million increase in miscellaneous capital project expenditures.

Disposition of assets decreased approximately $0.1 million, resulting in an expense on the Statement of Revenues, Expenses, and Changes in Net Position, compared to a small revenue in FY 2015. This increased expense was caused by an increase in the amount of assets disposed at a loss that exceeded the amount of junk sales and recycled scrap material revenue recorded during FY 2016.

Net transfers remained at $14.8 million, showing only a slight decrease of 0.2 percent from FY 2015. 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 $10.3 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 $1.4 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 and the grant fund for the Federal Emergency Management Administration (FEMA) reimbursements related to winter storm Goliath.

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 this $2.4 million change was due to accrued expense of $1.6 million that was recorded in relation to the contract dispute with the TTUS. 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 FY 2014 to FY 2015, the metered revenues used to calculate the PILOT and FFE increased $2.5 million. 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.

Other Changes in Net Position

FY 2016 – Net position for the years ended September 30, 2016 and 2015 was $176.6 million and $168.7 million, respectively.

FY 2016 net income of $22.6 million was $2.6 million higher than the FY 2015 net income of $20.0 million due to the $0.9 million decrease in operating expenses and the $1.7 million increase in operating revenues.

The main operating expenses contributing to the $0.9 million decrease included the $1.6 million decrease in the purchase of fuel and power, offset by the $1.4 million increase in personal services and the $0.4 million increase in other services and charges. Other contributors to the $0.9 million decrease in operating expenses included the $0.7 million decrease in maintenance, the $0.3 million decrease in depreciation, and the $0.1 million decrease in supplies.

The $1.7 million operating revenue increase was driven by the increase in general consumers' metered revenues and the increase in power marketing/unit contingent revenues, offset by the decrease in other revenues related to lower meter reconnect fees and fewer street light installations, plus the slight increase in uncollectible accounts (details discussed in the section titled "Total Revenues and Non-operating Income").

Net transfers, totaling $14.8 million, are deducted from net income to provide the total change in net position. LP&L's change in net position was a gain of $7.9 million compared to a gain of $5.2 million in FY 2015, reflecting an increase of $2.7 million in income when contributions and transfers are included.

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.

FY 2015 net income of $20.0 million was $1.3 million higher than the FY 2014 net income of $18.7 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 for FY 2015, 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 for FY 2015 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.

FINANCIAL POSITION

Condensed Statements of Net Position

	2016	2015	2014
Assets:			
Current assets	$ 97,339,519	$ 95,254,290	$ 92,327,159
Capital assets, net	222,243,250	220,227,317	227,652,309
Noncurrent investments	33,405,967	34,207,586	25,420,350
Goodwill	1,062,510	1,328,208	1,593,906
Prepaid expenses	1,744,443	1,877,776	2,011,109
Total assets	355,795,689	352,895,177	349,004,833
Deferred outflows of resources	10,022,950	4,729,928	812,733
Liabilities:			
Current liabilities	44,674,388	43,924,857	43,761,935
Noncurrent liabilities	143,610,556	144,192,335	130,062,927
Total liabilities	188,284,944	188,117,192	173,824,862
Deferred inflows of resources	906,160	795,331	-
Net position:			
Invested in capital assets, net of related debt	118,531,721	112,362,525	109,449,829
Restricted	10,392,293	10,254,840	9,822,504
Unrestricted	47,703,521	46,095,217	56,720,371
Total net position	**$ 176,627,535**	**$ 168,712,582**	**$ 175,992,704**

Current Assets

<u>**FY 2016**</u> – Current assets at September 30, 2016, of $97.3 million were $2.1 million higher than the balance at September 30, 2015, mainly due to a $2.6 million increase in accounts receivable. This increase was driven by the under collection of purchased power expenses, totaling $6.0 million, that was recorded as a receivable on the Statement of Net Position, as mentioned in the "Financial Highlights" section. The $6.0 million increase in receivables was offset by a $3.4 million decrease in the remaining non-PPRF receivable accounts due to the lower PPRF revenues put into effect from

February to September 2016, as discussed in the section titled "Total Revenues and Non-Operating Income". Therefore, the decreased revenues affected accounts receivables accordingly:

Receivables		2016		2015		Change	% Change
PPRF Receivables	$	6,011,465	$	-	$	6,011,465	-
Non-PPRF Receivables		25,347,371		28,738,556		(3,391,185)	-11.80%
Change in Non-PPRF Receivables	$	31,358,836	$	28,738,556	$	2,620,280	9.12%

Cash and cash equivalents increased $1.2 million due to increased cash from operating and investing activities, offset by higher capital investments compared to the previous fiscal year. The operating cash increased as a result of lower payments to suppliers and lower payments to employees, offset by lower receipts from customers. The decrease in receipts from customers was slightly offset by the base rate adjustment of 5.75 percent that went into effect October 1, 2015.

The increases for cash and accounts receivable were offset by a $1.6 million decrease in investments and a slight reduction in inventories, totaling $0.1 million.

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.

Noncurrent Assets

FY 2016 – Noncurrent restricted assets totaled $36.2 million at September 30, 2016, a decrease of $1.2 million compared to September 30, 2015. The decrease was largely attributable to the decrease in restricted investments as a result of the expenditure of LP&L bond proceeds from the Series 2016 and Series 2015 issuance.

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.

Capital Assets, Net

FY 2016 – At September 30, 2016, net capital assets of $222.2 million increased $2.0 million from $220.2 million at September 30, 2015, due to 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, substations, electric meters, and distribution and transmission lines.

In April 2016, an asset evaluation study was completed to convert LP&L's fixed asset records to the FERC Uniform System of Accounts (USOA). The intent of the FERC USOA conversion is to ultimately file a Transmission Cost of Service (TCOS) rate with the Public Utilities Commission of

Texas (PUC). This rate filing will be in conjunction with the anticipated ERCOT integration that is discussed in detail in the section titled "Future Power Supply", and will ultimately provide a return on LP&L's transmission assets.

Before the FERC conversion, LP&L recorded its plant investment using a chart of accounts with the following categories:

Land
Buildings
Improvements Other Than Buildings
Machinery & Equipment

A logical and reasonable methodology was used to convert LP&L's capital investments and accumulated depreciation to appropriate FERC accounts in order to support a future TCOS filing. The first step was to sort the assets into plant categories, using the fixed asset records provided by LP&L as of September 30, 2015. Wherever possible, plant investment and accumulated depreciation was directly assigned to the proper FERC accounts based on the existing account number, business unit, equipment code, and description, including the production and general plant accounts. An allocation approach was utilized for substations and overhead lines based on the results of the cost of study approach developed by NewGen Strategies & Solutions, LLC (NewGen) and its sub consultant, Exponential Engineering Company (EEC) to estimate the theoretical original cost of the asset by FERC plant account. This analysis was necessary to separate LP&L's book investment between the transmission and distribution functions.

EEC first estimated the replacement cost new (RCN) of LP&L's transmission and distribution assets on an order of magnitude basis for typical construction in LP&L's service area by plant account. A representative sample of transmission and distribution line facilities and substations was observed by EEC, then data derived from LP&L's GIS system was analyzed. Substation line drawings were also reviewed to estimate the inventory and RCN value of facilities in LP&L's system by FERC plant account. The installation year for each transmission line segment and substation was provided by LP&L and used to estimate the age of the distribution facilities based on the age of the substation RCN by installation decade. NewGen then estimated the original cost of the facilities, by FERC account, based on the age of the assets. The Handy Whitman Index of Public Utility Construction Cost was used to trend the RCN values back to their estimated year of installation, which established the "theoretical" gross plant balances by FERC account.

The total actual gross plant and accumulated depreciation balances for substations and overhead lines were then allocated on LP&L's books to the appropriate FERC accounts based on the "theoretical" original cost by FERC account developed in the preceding steps above. The total allocated balances for these FERC accounts were then spread back to the estimated year of installation based on the relative age of the historical plant balance in substations and overhead line investment. The beginning total gross plant and accumulated depreciation balances shown in the new FERC account fixed asset records are equal to the total gross plant and accumulated depreciation balances shown on the original fixed asset records as of September 30, 2015.

The production plant accounts were assigned based on the expertise of the Production Superintendent, and the general plant accounts were directly assigned based on the descriptions and equipment codes in the existing fixed asset records.

The fixed asset conversion into FERC categories was officially complete as of August 2016. While the construction in progress line item remained the same, all other existing capital asset categories were converted into the following categories:

Intangible Plant
Production Plant
Transmission Plant
Distribution Plant
Regional Transmission and Market Operation Plant
General Plant

The useful life of each asset is estimated as follows:

Intangible Plant	6-45 years	Production Plant	1-50 years
Transmission Plant	30-60 years	Distribution Plant	6-50 years
Reg Trans Mkt Oper Plant	5 years	General Plant	2-45 years

<u>FY 2015</u> – 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.

Current Liabilities

<u>FY 2016</u> – Excluding current maturities of debt totaling $15.2 million, current liabilities decreased $0.2 million, from $29.7 million at September 30, 2015, to $29.5 million at September 30, 2016. This decrease was caused by a $1.8 million decline in customer deposits and a $1.4 million decline in accounts payable, offset by increases in accrued liabilities and the due to related party line item, totaling $3.0 million. The decline in customer deposits was caused by a new deposit refund program that became effective in October 2015, which automatically refunds customers their initial deposit if they meet certain requirements, such as excellent credit, current account status, and a minimum one-year customer status. Under the terms of the deposit refund program, LP&L refunded 16,371 deposits for a total of approximately $2.5 million in FY 2016. Offsetting the $2.5 million in deposit refunds was $0.7 million in deposits for new customers. The decline in accounts payable was related to a $2.2 million collection of metered revenues that exceeded actual purchased power expenses in FY 2015, offset by an increase in vouchers payable relating to an increase in capital project expenditures.

Offsetting the decreased customer deposits and accounts payable balances was a $1.7 million increase in the due to related party line item and a $1.3 million increase in accrued liabilities. The increase in the due to related party line item is related to additional amounts owed to WTMPA as a result of increased fuel cost adjustments for September 2016, compared to September 2015. The increase in accrued liabilities was related to the accrued legal expense of $1.2 million that was recorded in May 2016 in relation to a contract dispute with TTUS.

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. Secondarily, 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.

Other Noncurrent Liabilities

FY 2016 – Excluding the noncurrent portion of debt of $111.1 million, long-term liabilities increased $7.4 million to $32.5 million at September 30, 2016. This increase was primarily related to an increase in the Net Pension Liability totaling $6.2 million that corresponded to a decrease in the discount rate from 7.0 percent in FY 2015 to 6.75 percent in FY 2016. See "Note 8: Retirement Plan" in the Notes to the Financial Statements for more details. The remaining $1.2 million variance in long-term liabilities was related to a $1.3 million increase in other postemployment benefits (OPEB), offset by a $0.1 million decrease in compensated absences.

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.

LONG-TERM DEBT

FY 2016 – At September 30, 2016 LP&L's total outstanding debt was $126.3 million. Bonds payable was composed of $37.8 million in certificates of obligation, $77.7 million in revenue bonds, and $10.8 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 2016, LP&L issued $7.5 million Electric Light and Power Revenue Bonds, Series 2016. The true interest cost for this issuance, which has maturities in 2016 through 2046, is 3.04 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 2016, the City issued approximately $26.7 million General Obligation Refunding Bonds, Tax-Exempt Series 2016, with LP&L's portion being approximately $3.1 million. This refunding transaction resulted in decreased total debt service requirements and an 11.78 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2016 through 2034, is 2.41 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 $10.1 million on its revenue bonds and $4.2 million on its certificates of obligation.

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 2015 through 2035, is 3.41 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 2028, is 2.37 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.

CURRENTLY KNOWN FACTS

Future Power Supply – A Transaction Agreement for Total Requirements Power Service between WTMPA and 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 total 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. After a methodical and purposeful examination of all proposals and options, the Electric Utility Board (EUB) terminated 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, which was conducted by expert engineering consultants who worked in close consultation with LP&L. The PUC established a project to consider the LP&L integration in February 2016, and ERCOT completed its LP&L transmission integration study in May 2016. There are additional impact studies currently being conducted by the SPP, ERCOT, and LP&L, looking closely at technical and cost/benefit components of the transition. SPP and ERCOT have indicated these studies will be complete by the second quarter of 2017.

LP&L is the first major municipally owned electric system to transfer load from SPP to ERCOT. From the beginning, LP&L has understood that regulatory activities and contested hearing timeframes are time-intensive; therefore a well-planned transition has been a primary focus throughout the process. A focus on the continuity of capacity and energy has been incorporated into LP&L's long-range financial models, which anticipates an 18-24 month transition period in which LP&L will continue to purchase capacity and energy in SPP after the expiration of the total requirements contract with SPS in June 2019. Discussions with third-parties are currently underway for a transition contract for capacity and energy supply after June 2019.

Base Rate Adjustment – Rates are set by the Board and approved by the Lubbock City Council. On September 22, 2016, the City Council approved a 5.75 percent adjustment in LP&L's base rates, which became effective on October 1, 2016. The long-term financial model anticipates similar base rate adjustments for the next two fiscal years.

Mid-Season PPRF Adjustment – On January 17, 2017, the Board adopted a mid-season adjustment that will be implemented on February 1, 2017 to raise purchased power energy and demand rates to recover the cumulative under collection of purchased power costs of $6.8 million as of December 31, 2016. This under-collection was caused by unanticipated costs from SPS, the SPP Regional Transmission Organization, and from the impact of increased fuel prices on the cost of electric generation, as discussed in detail in the "Financial Highlights" section.

New Large Customer – Monsanto, a sustainable agriculture and Fortune 500 Company, announced plans for a $140 million project to build a state-of-the-art cotton seed processing facility in North Lubbock on January 13, 2016. The site will be established as Monsanto's primary U.S. hub for all commercial cotton seed processing operations, including cleaning, treating, and bagging of cotton seed. Construction started in April 2016 and is set to finish by summer 2017. The plant is anticipated to be one of LP&L's largest customers, with an estimated load of approximately 8 to 12 MW.

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 2017 as reported by the EIA are as follows:

- Electricity Generation – In 2017, the EIA projects that natural gas prices will continue to slowly increase, resulting in the share of total generation fueled by natural gas to decrease 1.0 percent, down to 33.0 percent.
- Electricity Retail Prices – The slowly rising cost of natural gas in 2016 is the primary factor for a projected rise in the price of electricity. The EIA expects electricity prices to average 12.8 cents per kilowatt hour (kWh) for calendar year 2017, which is a 0.3 percent increase over 2016.
- Natural Gas Prices – The EIA expects the Henry Hub natural gas spot price to average $3.27 per MMBtu in calendar year 2017, compared with $2.49 per MMBtu in calendar year 2016, due to the growing domestic natural gas consumption, higher pipeline exports to Mexico, and liquefied natural gas exports.
- Coal Prices – Although forecasted annual coal production declined by 15.0 percent in 2016 to the lowest level of coal production since 1978, coal production is forecasted to increase by 2.0 percent in 2017. The annual average coal price to the electric power sector averaged $2.14/MMBtu in 2016, which was a 4.0 percent decline from the previous year. The EIA expects the average delivered coal price to average $2.21/MMBtu in 2017.
- Generation Mix – LP&L is in the SPP which maintained the following generation mix in each of the following time periods:

	CY 2016	**CY 2015**	**CY 2014**
Natural Gas	23.13%	21.64%	46.50%
Coal	48.41%	55.08%	35.40%
Wind	17.47%	13.52%	11.45%
Hydro	3.55%	1.54%	1.10%
Nuclear	7.03%	8.12%	3.43%
Fuel Oil	0.18%	0.03%	2.03%
Other	0.23%	0.07%	0.09%
	100.00%	**100.00%**	**100.00%**

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. If these regulations become enforceable for existing facilities, the ability to operate LP&L's electric generation facilities could be restricted, unless additional allowances are acquired or LP&L chooses to limit the operating hours of the facilities.

Federal electric reliability regulations or standards pertaining to high voltage electric transmission lines and equipment change periodically. These standards currently impact LP&L and will to a greater extent as planned new construction and upgrades to the high voltage electric transmission lines and equipment are completed.

As applicable regulations change, LP&L is continually monitoring the regulatory agencies enforcing the regulations to assess the impact on LP&L operations. In addition to acquiring vendor support to perform gap analysis and regulatory review as needed, LP&L has dedicated regulatory compliance specialists on staff to coordinate compliance efforts. Management is committed to maintaining a culture of regulatory 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, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,844,988	$ 7,640,502
Investments	55,507,776	57,089,080
Accounts receivable, net	31,358,836	28,738,556
Interest receivable	28,140	26,292
Prepaid expenses	25,000	25,000
Inventories	1,574,779	1,734,860
Total current assets	97,339,519	95,254,290
Noncurrent assets:		
Restricted investments	33,405,967	34,207,586
Goodwill	1,062,510	1,328,208
Prepaid expenses	1,744,443	1,877,776
	36,212,920	37,413,570
Capital assets:		
Non-Depreciable	16,778,610	16,657,823
Construction in progress	5,159,705	10,841,387
Depreciable	434,131,857	409,408,112
Less accumulated depreciation	(233,826,922)	(216,680,005)
Total capital assets	222,243,250	220,227,317
Total noncurrent assets	258,456,170	257,640,887
Total assets	$ 355,795,689	$ 352,895,177
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	$ 1,534,143	$ 1,440,177
Deferred outflows from pensions	8,488,807	3,289,751
Total deferred outflows of resources	$ 10,022,950	$ 4,729,928

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Net Position
September 30, 2016 and 2015

	2016	2015
LIABILITIES		
Current liabilities:		
Accounts payable, net	$ 1,976,758	$ 3,355,853
Accrued liabilities	4,370,603	3,111,974
Accrued interest payable	1,767,398	1,819,672
Due to related party	14,409,098	12,733,740
Customer deposits	5,096,849	6,909,975
Compensated absences	1,836,206	1,789,027
Bonds payable	15,217,476	14,204,616
Total current liabilities	44,674,388	43,924,857
Noncurrent liabilities:		
Compensated absences	938,188	1,062,691
Post employment benefits	8,738,911	7,362,279
Net pension liability	22,874,630	16,721,796
Bonds payable	111,058,827	119,045,569
Total noncurrent liabilities	143,610,556	144,192,335
Total liabilities	$ 188,284,944	$ 188,117,192
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions	$ 906,160	$ 795,331
Total deferred inflows of resources	$ 906,160	$ 795,331
NET POSITION		
Net investment in capital assets	118,531,721	112,362,525
Restricted for:		
Debt service	10,392,293	10,254,840
Unrestricted	47,703,521	46,095,217
Total net position	$ 176,627,535	$ 168,712,582

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Revenues, Expenses, and Changes in Net Position
September 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Charges for services	$ 222,951,614	$ 221,215,135
OPERATING EXPENSES		
Personal services	19,858,599	18,412,110
Supplies	993,070	1,080,314
Maintenance	2,103,059	2,842,372
Purchase of fuel and power	145,856,186	147,496,656
Other services and charges	7,569,610	7,143,694
Depreciation and amortization	18,795,569	19,083,255
Total operating expenses	195,176,093	196,058,401
Operating income	27,775,521	25,156,734
NON-OPERATING REVENUES (EXPENSES)		
Interest income	491,350	403,267
Disposition of assets	(3,293)	137,436
Miscellaneous	(1,593,292)	(1,656,984)
IRS Build America Bond subsidy	9,984	9,930
Interest expense on bonds	(4,093,916)	(4,063,993)
Total non-operating revenues (expenses)	(5,189,167)	(5,170,344)
Income before contributions and transfers	22,586,354	19,986,390
Capital contributions	85,741	44,621
Transfers, net	(14,757,142)	(14,779,263)
Change in net position	7,914,953	5,251,748
Net position - beginning	168,712,582	175,992,704
Change in accounting principle	-	(12,531,870)
Net position - beginning, as restated	168,712,582	163,460,834
Net position - ending	$ 176,627,535	$ 168,712,582

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Cash Flows
September 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 218,133,356	$ 221,814,120
Payments to suppliers	(154,499,427)	(160,443,979)
Payments to employees	(17,417,357)	(18,412,110)
Other receipts (payments)	(1,583,308)	(1,647,054)
Net cash provided by operating activities	44,633,264	41,310,977
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	120,316	85,122
Transfers out to other funds	(14,877,458)	(14,864,385)
Net cash used by noncapital and related financing activities	(14,757,142)	(14,779,263)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(21,060,596)	(11,704,555)
Sale of capital assets	644,832	582,759
Principal paid on bonds	(14,231,304)	(13,710,805)
Issuance of bonds	8,614,805	14,463,550
Bond issuance costs	(269,744)	(941,381)
Interest paid on bonds and capital leases	(5,327,795)	(4,971,382)
Capital grants and contributions	85,741	44,621
Net cash used for capital and related financing activities	(31,544,061)	(16,237,193)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	2,382,923	(13,527,183)
Interest earnings on cash and investments	489,502	410,055
Net cash used by investing activities	2,872,425	(13,117,128)
Net increase (decrease) in cash and cash equivalents	1,204,486	(2,822,607)
Cash and cash equivalents - beginning of year	7,640,502	10,463,109
Cash and cash equivalents - end of year	8,844,988	7,640,502

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	27,775,521	25,156,734
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	18,795,569	19,083,255
Other income (expense)	(1,583,308)	(1,647,054)
Change in current assets and liabilities:		
Accounts receivable	3,391,185	598,985
Deferred Expenses, PPRF	(6,011,465)	-
Inventory	160,081	(1,615,564)
Accounts payable	818,881	703,392
Deferred Revenues, PPRF	(2,197,976)	2,197,976
Due to related party	1,675,358	(5,153,813)
Accrued liabilities	1,258,629	1,643,744
Customer deposits	(1,813,126)	10,312
Compensated absences and retirement benefits	2,363,915	333,010
Net cash provided by operating activities	44,633,264	41,310,977

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). The results of operations and cash flows are in conformity with generally accepted accounting principles. LP&L's financial statements are not intended to present fairly the financial position of the City, and 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.

In 1916, the citizens of Lubbock voted to establish a municipal electric company, which was organized to manage the energy needs of the City. Therefore, for the past 100 years, LP&L has served the majority of citizens in this community. On November 2, 2004, Lubbock voters elected to amend the City Charter 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 LP&L. 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, transmission, 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 September 24, 2015, LP&L announced its intent to join the Electric Reliability Council of Texas (ERCOT) and initiated the process with the PUC, SPP and ERCOT. LP&L has submitted a full transmission study to ERCOT, which was conducted by expert engineering consultants who worked in close consultation with LP&L. The PUC established a project to consider the LP&L integration in February 2016, and ERCOT completed its LP&L transmission integration study in May 2016. There are additional impact studies currently being conducted by the Southwest Power Pool (SPP), ERCOT, and LP&L, looking closely at technical and cost/benefit components of the transition. SPP and ERCOT have indicated these studies will be complete by the second quarter of 2017.

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.

A. General Matters (continued)

LP&L is a member of 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 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 CAFR. Until June 1, 2019, WTMPA has contracted with SPS, on behalf of the Cities, for full-requirements service. After June 1, 2019, the full-requirements contract will terminate and the Cities will procure energy and capacity independently, with the exception of a 100MW wind energy contract with NextEra.

B. Significant Accounting Policies

The financial statements 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 Governmental 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 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 investments. Government agency bonds and municipal bonds are stated at fair value, while State Pools (TexSTAR, LOGIC, and Texas CLASS) are stated at net asset value. Money Market and TexPool are stated at amortized cost.

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.

B. Significant Accounting Policies (continued)

Investments

Investments include State Investment Pools and securities in the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Bank, Federal Agricultural Mortgage Corporation and Municipal Bonds. Restricted investments include investments that have been restricted for bond financed capital projects and funds that have been restricted by bond covenants for debt service requirements.

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, metered revenues for the first fifteen days of the first month after the 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 $2,270,599, are collectible.

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 the electric system have been recorded at original cost and are being depreciated on a straight-line basis over the estimated useful life of each asset. Prior to this FY, the useful life of each asset was estimated as follows:

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

In April 2016, LP&L completed an asset evaluation study to convert its fixed asset records to the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts. The assets were converted into FERC categories on the financial statements as of August 2016; therefore, the useful life of each asset is now estimated as follows:

Intangible Plant	6-45 years	Production Plant	1-50 years
Transmission Plant	30-60 years	Distribution Plant	6-50 years
Reg Trans Mkt Oper Plant	5 years	General Plant	2-45 years

Donated assets are recorded at the estimated acquisition 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 increase the value of the asset or materially extend the useful life, are expensed when incurred.

B. Significant Accounting Policies (continued)

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, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*. LP&L capitalized interest totaling approximately $143,315, net of interest earned during the FY 2016, and $407,577 net of interest earned during FY 2015.

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, 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.

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. For additional information on interfund transactions, reference Note 3: Interfund Transactions.

Implementation of New Accounting Principles

In FY 2016, LP&L implemented GASB Statement No. 72, *Fair Value Measurement and Application.* While this statement has no impact on the financials, it is included as a disclosure, as seen in "Note 2: Deposits and Investments". In FY 2018, LP&L will implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* This statement addresses accounting and financial reporting by governments that provide OPEB, such as retiree health insurance, to their employees. The effects of these standards on the financial statements have not yet been determined.

B. Significant Accounting Policies (continued)

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 deferred charges on bond refundings. A deferred charge is the difference in the carrying value of refunded bonds and the reacquisition price and is deferred or amortized over the shorter of the life of the refunded bonds or the refunding bonds. LP&L also has deferred outflows for pensions related to contributions and expected investment experience versus actual 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. Deferred inflows include pension actuarial differences in expected and actual experience, per GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. For additional information on deferred outflows/inflows related to pensions, reference Note 8: Retirement Plan.

Pensions
For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) Plan and additions to/deductions from the TMRS' fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's total pension liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.*

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 Investment Act.

State law requires collateralization of all deposits with federal depository insurance, eligible securities, or a surety bond having an aggregate value at least equal to the amount of the deposits. LP&L pools its monies with the City, and the City oversees and administers LP&L's investments. The City's investment policy requires the minimum collateral level to be 102% of market value of principal and accrued interest.

At September 30, 2016, 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	31,265,997
Total	$32,015,997

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

At September 30, 2016 and 2015, LP&L had the following investments and maturities:

	30-Sep-16			30-Sep-15		
		Maturities in Years			Maturities in Years	
Type	Fair Value	Less Than 1	1-5	Fair Value	Less Than 1	1-5
Farmer Mac (FAMCA)	$ 687,726	$ 489,595	$ 198,131	$ -	$ -	$ -
Federal Home Loan Banks (FHLB)	5,896,459	2,354,515	3,541,944	4,748,985	1,452,681	3,296,304
Federal Farm Credit Bank (FFCB)	3,533,402	1,570,031	1,963,371	2,651,516	792,134	1,859,382
Federal Home Loan Mortgage Corp. (FHLMC)	3,433,203	589,104	2,844,099	4,462,066	409,878	4,052,188
Federal National Mortgage Association (FNMA)	2,546,350	196,132	2,350,218	2,235,980	814,978	1,421,002
Municipal Bonds	6,431,235	1,857,820	4,573,415	4,046,530	1,780,261	2,266,269
Certificates of Deposit	-	-	-	128,618	128,618	-
Money Market Mutual Funds	141,028	141,028	-	19,787	19,787	-
State Investment Pools *	66,244,340	66,244,340	-	73,003,184	73,003,184	-
Total	$ 88,913,743	$ 73,442,565	$ 15,471,178	$ 91,296,666	$ 78,401,521	$ 12,895,145

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

Investment in State Investment Pools

The City utilizes four state local government investment pools (LGIPs) that include: TexPool Local Government Investment Pool (TexPool), Texas Short Term Asset Reserve (TexSTAR), Local Government Investment Cooperative (LOGIC) and Texas Cooperative Liquid Assets Securities System (Texas CLASS).

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.

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

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 FirstSouthwest, a division of Hilltop Securities (FirstSouthwest); and the final director is an officer or employee of an affiliate of J.P. Morgan Investment Management Inc. (JPMIM). 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. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds.

LOGIC was established pursuant to an Interlocal Agreement, which was subsequently amended and is now entitled Participation Agreement and Trust Instrument (the "Agreement") between participating Government Entities. Participation in the Pool is limited to those eligible Government Entities who have become parties to the Agreement ("Participants"). Participants' assets in the Pool are represented by units of beneficial interest ("Units"), which are issued in discrete series (each a "Portfolio"), as authorized from time to time by the LOGIC Board. Assets invested in any Portfolio will be managed separately, and segregated from, the assets of every other Portfolio. Since September 2005, JPMIM has served as investment adviser to LOGIC. FirstSouthwest and JPMIM serve as co-administrators to LOGIC, and FirstSouthwest provides administrative, participant support, and marketing services. JPMorgan Chase Bank N.A. provides custodial services. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds.

Texas CLASS was created specifically for the use of Texas local government entities and seeks to provide safety, liquidity, convenience, and competitive rates of return. Public Trust Advisors, LLC serves as the pool's administrator and investment adviser. The marketing and operation functions of the portfolio are also performed by Public Trust Advisors, LLC. The pool is subject to the general supervision of its Board of Trustees and its Advisory Board, both of which are elected by the Texas CLASS Participants. Wells Fargo Bank, N.A. serves as custodian for the pool. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds.

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 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 pooled funds.

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that the issuer or 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 collateralized certificates of deposit, AAA-rated, no-load money market mutual funds regulated by the Securities and Exchange Commission and AAA-rated constant-dollar LGIPs authorized by the City Council. On September 30, 2016, Standard & Poor's rated the LGIPs AAAm. The senior unsecured debt for investments in the FNMA, FAMCA, FFCB, FHLMC, and FHLB are rated AA+ by Standard & Poor's (S&P) and Aaa by Moody's. The municipal bond investments are rated between an AAA and A- by S&P and between an Aaa and A1 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, FAMCA, 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 and State Investment Pools. As of September 30, 2016, LP&L's investments constituted the following percentages of total investments: State Investment Pools – 76.80%, Municipal Bonds – 6.58%, FHLB – 6.04%, FFCB – 3.61%, FHLMC – 3.51%, FNMA – 2.61%, FAMCA - 0.71%, and Money Market Mutual Funds – 0.14%.

Foreign Currency Risk

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

Disclosures about Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of LP&L's assets and liabilities recognized in the accompanying financial statements, measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2016 and 2015:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016				
Investments by fair value level				
Federal Farm Credit Bank (FFCB)	$ 3,533,402	$ -	$ 3,533,402	$ -
Farmers Mac (FAMCA)	687,726	-	687,726	-
Federal Home Loan Bank (FHLB)	5,896,459	-	5,896,459	-
Federal Home Loan Mortgage Corporation (FHLMC)	3,433,203	-	3,433,203	-
Federal National Mortgage Association (FNMA)	2,546,350	-	2,546,350	-
Municipal Bonds	6,431,235	-	6,431,235	-
Total investments by fair value level	$ 22,528,374	$ -	$ 22,528,374	$ -
Investments measured at the net asset value				
TexStar	$ 36,636,592			
LOGIC	8,673,700			
Texas Class	16,469,591			
Total investments measured at the NAV	$ 61,779,884			
Investments measured at amortized cost				
TexPool	$ 4,464,457			
Money Markets	141,028			
Total investments at amortized cost	$ 4,605,485			
Total Investments	$ 88,913,743			

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015				
Investments by fair value level				
Federal Farm Credit Bank (FFCB)	$ 2,651,516	$ -	$ 2,651,516	$ -
Federal Home Loan Bank (FHLB)	4,748,985	-	4,748,985	-
Federal Home Loan Mortgage Corporation (FHLMC)	4,462,066	-	4,462,066	-
Federal National Mortgage Association (FNMA)	2,235,980	-	2,235,980	-
Municipal Bonds	4,046,530	-	4,046,530	-
Total investments by fair value level	$ 18,145,077	$ -	$ 18,145,077	$ -
Investments measured at the net asset value				
TexStar	$ 6,623,884			
Total investments measured at the NAV	$ 6,623,884			
Investments measured at amortized cost				
TexPool	$ 66,379,300			
Money Markets	19,787			
Certificate of deposit	128,618			
Total investments at amortized cost	$ 66,527,705			
Total Investments	$ 91,296,666			

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

NOTE 3: INTERFUND TRANSACTIONS

The due to related party balance is a short-term payable due to WTMPA, which was $14,409,098 and $12,733,740 at September 30, 2016 and 2015, respectively. This outstanding balance will be repaid within one month.

At September 30, 2016 and 2015, LP&L had no internal financing.

Net transfers out totaling $14,757,142 for FY 2016 from LP&L to other City funds were the result of 1) General Fund indirect cost allocations, totaling $1,123,599; 2) payments to WTMPA for management and administration, totaling $1,372,069; 3) City franchise fee equivalents totaling $10,318,159; 4) Payment in lieu of taxes totaling $2,063,632; offset by a transfer in from the City's Water Fund totaling $87,891 and a transfer in from the City's Grant Fund totaling $32,425.

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.

NOTE 4: INVENTORY

The inventory at September 30, 2016 and 2015 was $1,574,779 and $1,734,860, 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 $1,744,443 in 2016 and $1,877,776 in 2015, 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 $1,062,510 in 2016 and $1,328,208 in 2015, represents the excess unamortized purchase price over the estimated value of capital assets purchased from SPS in FY 2011. The goodwill is amortized over a 10-year period.

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016*:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	$ 10,841,388	$ 20,595,652	$ 26,277,335	$ 5,159,705
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	-	35,046	-	35,046
Electric Distribution Plant	16,279,891	85,742	-	16,365,633
Electric General Plant	302,521	-	-	302,521
Total Capital Assets, Not Depreciated	27,499,210	20,716,440	26,277,335	21,938,315
Capital Assets, Depreciated:				
Electric Production Plant	96,904,291	513,856	221,766	97,196,381
Electric Transmission Plant	31,913,665	12,759,029	5,912	44,666,782
Electric Distribution Plant	251,223,379	11,720,636	440,061	262,503,954
Electric Regional Trans Mkt Oper Plant	-	154,818	-	154,818
Electric General Plant	29,366,777	1,545,261	1,302,116	29,609,922
Total Capital Assets, Depreciated	409,408,112	26,693,600	1,969,855	434,131,857
Less Accumulated Depreciation:				
Electric Production Plant	56,931,668	3,640,711	107,122	60,465,257
Electric Transmission Plant	15,898,744	25,654	5,912	15,918,486
Electric Distribution Plant	127,634,455	12,787,210	440,061	139,981,604
Electric Regional Trans Mkt Oper Plant	-	23,270	-	23,270
Electric General Plant	16,215,138	1,991,805	768,638	17,438,305
Total Accumulated Depreciation:	216,680,005	18,468,650	1,321,733	233,826,922
Total Capital Assets Depreciated, Net	192,728,107	8,224,950	648,122	200,304,935
Capital Assets, Net	$ 220,227,317	$ 28,941,390	$ 26,925,457	$ 222,243,250

*The fixed asset details for FY 2015-16 have been revised as a result of the FERC conversion (see Note 1.B: Capital Assets and Depreciation).

NOTE 7: CAPITAL ASSETS (continued)

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

Construction Commitments

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

Construction Commitments at September 30, 2016:

Original Commitments	Spent-to-Date	Remaining Commitments
$ 74,809,359	$ 38,484,188	$ 36,325,171

NOTE 8: RETIREMENT PLAN

The City participates in the Texas Municipal Retirement System (TMRS) for its retirement plan. All eligible employees 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, 2016 and 2015, and the pension expense for the years then ended are as follows:

	TMRS 2016	TMRS 2015
Net pension liability:	$ 22,874,630	$ 16,721,796
Deferred outflows of resources:	$ 8,488,807	$ 3,289,751
Deferred inflows of resources:	$ 906,160	$ 755,331
Pension expense:	$ 4,155,743	$ 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 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by 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. Allocation of pension items to LP&L is done on the basis of payroll of LP&L participant employees in relation to total City employees. For 2015 and 2014 measurement periods, the allocation percentages were 18.38% and 18.21%, respectively. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained 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.

NOTE 8: RETIREMENT PLAN (continued)

The adopted plan provisions for plan years 2015 and 2014 were as follows:

	Plan Year
Employee Deposit Rate	7.0%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Retirement Eligibility (Expressed as Age/Years of Service)	60/5, 0/20

Contributions

The contribution rate for employees is 7% of employee gross earnings, and the 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 employer contribution rates were 17.96% and 18.57% in calendar years 2015 and 2014, respectively. LP&L's contributions to TMRS for the years ended September 30, 2016 and 2015, were $3,090,958 and $3,063,920, respectively, and were equal to the required contributions.

Net Pension Liability

LP&L's net pension liability (NPL) was measured as of December 31, 2015 and 2014, and the total pension liability (TPL) used to calculate the NPL was determined by actuarial valuations as of these dates.

Actuarial Assumptions

The TPL in the December 31, 2015 and 2014 actuarial valuations was determined using the following actuarial assumptions:

2015:	
Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension investment expense, including inflation
2014:	
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

NOTE 8: RETIREMENT PLAN (continued)

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 to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. 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 2015 valuation.

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.

After the Asset Allocation Study analysis and experience investigation study, the TMRS Board of Trustees amended the long-term expected rate of return on pension plan investments from 7.0% to 6.75% in 2015. 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. In determining the best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, Gabriel, Roeder, Smith & Company (GRS) focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At the July 30, 2015 meeting, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTE 8: RETIREMENT PLAN (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was 6.75% and 7.0% for the December 2015 and 2014 actuarial valuations, respectively. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified 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.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at September 30, 2015	$114,386,897	$ 97,665,101	$ 16,721,796
Changes for the year:			
Service cost	2,875,400	-	2,875,400
Interest	7,972,440	-	7,972,440
Difference between expected and actual experience	(424,313)	-	(424,313)
Changes of assumptions	199,125	-	199,125
Contributions – employer	-	3,207,997	(3,207,997)
Contributions – employee	-	1,209,360	(1,209,360)
Net investment income	-	145,404	(145,404)
Benefit payments, including refunds of employee contributions	(5,926,334)	(5,926,334)	-
Administrative expense	-	(88,569)	88,569
Other changes	-	(4,374)	4,374
Net changes	$ 4,696,318	$ (1,456,516)	$ 6,152,834
Balance at September 30, 2016	**$119,083,215**	**$ 96,208,585**	**$ 22,874,630**

NOTE 8: RETIREMENT PLAN (continued)

Changes in the Net Pension Liability	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
Difference between expected and actual experience	(1,012,979)	-	(1,012,979)
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 at September 30, 2016, calculated using the discount rate of 6.75%, as well as what LP&L's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
LP&L's net pension liability	$39,165,329	$22,874,630	$9,477,907

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report, which can be obtained on TMRS' website at www.TMRS.com.

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

For the years ended September 30, 2016 and 2015, LP&L recognized pension expense of $4,155,743 and $2,580,138, respectively. At September 30, 2016 and 2015, LP&L reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 8: RETIREMENT PLAN (continued)

Balance at September 30, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 155,070	$ -
Difference in expected and actual experience	-	906,160
Difference between projected and actual investment earnings	6,117,632	-
Contributions subsequent to the measurement date	2,216,105	-
Total	**$ 8,488,807**	**$ 906,160**

Balance at September 30, 2015	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**

At September 30, 2016, the amount totaling $2,216,105 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, 2017. 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	$ 1,322,471
2017	1,322,471
2018	1,398,412
2019	1,323,188
Total	**$ 5,366,542**

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

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (continued)

Funding Policy

The contribution requirements of plan members are established by the City and may be amended as needed. Retiree medical/dental coverage levels are the same as coverage provided to active City employees in accordance with the terms and conditions of the current City Benefit Plan. Employees who retire with 15 or more years of service 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 688 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 No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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	$1,970,417
Interest on net OPEB obligation	310,053
Adjustment to the ARC	(294,124)
Annual OPEB Cost	1,986,346
Total annual employer contribution (pay-as-you-go)	(609,714)
Increase in net OPEB obligation	1,376,632
Net OPEB obligation – beginning of year	7,362,279
Net OPEB obligation – end of year	$8,738,911

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2014	$1,739,431	31.3%	$6,176,464
09/30/2015	1,817,220	34.7%	7,362,279
09/30/2016	1,986,346	30.7%	8,738,911

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress

As of October 1, 2015, the most recent actuarial valuation date, the plan was not funded. The City's actuarial accrued liability for benefits was $179,114,581, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) totaling $179,114,581. The covered payroll (annual payroll of active employees covered by the plan) was $122,938,662 and the ratio of the UAAL to the covered payroll was 145.7%. LP&L's percentage of the ARC is calculated at 12.18%; hence, LP&L's accrued liability for benefits was $21,810,711 and the actuarial value of assets was $0, resulting in an UAAL totaling $21,810,711. The covered payroll (annual payroll of active employees covered by the plan) was $14,970,192, and the ratio of the UAAL to the covered payroll was 145.7%.

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	2.5% per annum
Investment rate of return	4.25% 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
Payroll growth	3.0% per year
Healthcare trend	Initial rate of 7.0% declining to an ultimate rate of 4.5% after 13 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time, relative to actuarial accrued liability for benefits.

NOTE 10: DEFERRED COMPENSATION

LP&L participates in the City's deferred compensation program and 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 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 of all outstanding balances are as follows:

Average Interest Rate	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-16*	Balance Outstanding 9-30-15**
4.58	04-15-06	02-15-26	$ 6,077,282	$ 305,000	$ 595,000
4.42	01-01-07	02-15-34	5,835,000	4,240,000	4,240,000
4.88	08-15-07	08-15-27	13,176,658	616,171	1,202,284
4.42	04-15-08	08-15-27	6,498,295	599,955	878,021
4.53	03-01-09	08-15-29	6,936,647	2,035,000	5,579,688
2.70	02-15-10	02-15-30	5,410,997	4,173,632	4,426,070
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
1.61	04-15-13	04-15-21	5,990,000	3,975,000	5,615,000
1.76	04-15-13	04-15-24	2,585,000	2,575,000	2,585,000
2.63	05-01-14	04-15-26	4,515,000	2,835,000	2,950,000
2.37	04-15-15	04-15-28	12,840,000	12,840,000	12,840,000
2.41	04-15-16	02-15-34	3,060,000	3,060,000	-
Total			$75,452,323	$37,812,202	$42,153,507

* Balance outstanding excludes $3,715,405 of net bond premiums and discounts.
** Balance outstanding excludes $3,614,274 of net bond premiums and discounts.

At September 30, 2016, the City and LP&L management believes it was in compliance with all financial bond covenants on outstanding general obligation bonded debt and certificates of obligation.

NOTE 11: LONG-TERM LIABILITIES (continued)

Electric Revenue Bonds

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-16*	Balance Outstanding 9-30-15**
2.45	10/15/10	4/15/20	$ 73,295,000	$ 32,450,000	$ 39,650,000
1.90	05/21/13	4/15/24	16,570,000	11,815,000	13,390,000
3.09	05/01/14	4/15/34	16,245,000	14,445,000	15,320,000
3.41	04/15/15	4/15/35	11,865,000	11,455,000	11,865,000
3.04	04/15/16	4/15/46	7,535,000	7,535,000	-
Total			$ 125,510,000	$ 77,700,000	$ 80,225,000

* Balance outstanding excludes $7,048,696 of net bond premiums and discounts.
** Balance outstanding excludes $7,257,403 of net bond premiums and discounts.

Debt is secured by a first lien on and pledge of the net revenues of the City's Electric Light and Power System. Remaining interest required to amortize all outstanding debt equals $20.1 million.

The general purpose for the debt is for acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities and/or related infrastructure for the Electric Light and Power System. Net revenue available for debt service is 3.4 times the debt service requirements in FY 2016.

At September 30, 2016, the City and LP&L management believes it was in compliance with all financial bond covenants on outstanding revenue bonds.

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

Fiscal	General Obligation Bonds		Revenue Bonds	
Year	Principal	Interest	Principal	Interest
2016-17	$ 4,437,476	$1,606,474	$10,780,000	$ 3,363,294
2017-18	4,442,078	1,450,158	11,215,000	2,900,244
2018-19	3,075,816	1,301,961	11,735,000	2,365,144
2019-20	3,211,922	1,161,209	12,170,000	1,903,494
2020-21	3,353,087	1,011,851	3,625,000	1,335,944
2022-26	14,366,225	2,813,508	12,890,000	4,630,032
2027-31	4,925,597	314,854	7,605,000	2,587,356
2032-36	-	-	6,955,000	857,419
2037-41	-	-	330,000	103,381
2042-46	-	-	395,000	42,350
Totals	$37,812,202	$9,660,014	$77,700,000	$20,088,658

NOTE 11: LONG-TERM LIABILITIES (continued)

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2016 and 2015 are as follows:

Fiscal Year 2016	Balance 9/30/2015	Additions	Deletions	Balance 9/30/2016	Due in one year
LP&L activities:					
General Obligation Bonds	$42,153,507	$3,085,000	$7,426,306	$37,812,202	$4,437,476
Revenue Bonds	80,225,000	7,535,000	10,060,000	77,700,000	10,780,000
Bond Premiums	10,871,678	1,249,805	1,357,381	10,764,101	-
Compensated Absences	2,851,718	1,697,822	1,775,146	2,774,394	1,836,206
Other Postemployment Benef	7,362,279	1,376,632	-	8,738,911	-
Net Pension Obligation	16,721,796	11,139,909	4,987,075	22,874,630	-
Total LP&L activities	$160,185,978	$26,084,168	$25,605,908	$160,664,238	$17,053,682

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	-
Compensated Absences	3,217,608	1,399,777	1,765,667	2,851,718	1,789,027
Other Postemployment Benef	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	$160,185,978	$15,993,643

Proceeds from the sale of Bonds 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 Bonds. Proceeds from debt issuances are used primarily for capital related purposes and are included in net assets invested in capital assets, net of related debt.

In April 2016, the City issued $7,535,000 Electric Light and Power System Revenue Bonds, Series 2016 (Bonds), with interest rates ranging from 3.00% to 5.00%. The Bonds at year end have an unamortized premium totaling $752,603. Bond proceeds totaling $8,312,690 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.

NOTE 11: LONG-TERM LIABILITIES (continued)

In April 2016, the City issued $26,660,000 General Obligation Refunding Bonds, Series 2016 (Bonds), with interest rates ranging from 3.00% to 5.00%. LP&L's portion was $3,085,000 with a premium totaling $516,093 at year end and a deferred loss totaling $250,476 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. The bonds refunded $28,055,000 of outstanding debt. As a result of the refunding, the City decreased total debt service requirements by $4,108,943, which resulted in an accounting loss of $3,053,481 and an economic gain of $3,303,946, or a 11.78% savings on refunded bonds. The debt will be legally defeased in 2019.

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 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, 2016, the City had $199,545,000 of defeased bonds remain outstanding, in which $18,735,000 is defeased debt associated with the Electric Light and Power System.

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.

NOTE 12: RISK MANAGEMENT (continued)

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 (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly for liability coverage.

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

Additionally, property and boiler coverage is accounted for in the Risk Management Fund. The property insurance policy was purchased from an outside insurance carrier. The policy has a $250,000 deductible per occurrence, and the boiler coverage insurance deductible is up to $500,000, dependent upon the unit. Premiums are charged to funds, including LP&L, 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. Beginning on January 1, 2012, the City discontinued coverage that included an aggregate cap. The insurance vendor, based on medical trends, claims history, and utilization, assists in the determination of the individual deductible. The actuarially determined calculation of the claim liability was $1.68 million at September 30, 2016 for all health insurances including medical, prescription drugs, and dental. 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 insurance for eligible dependents at a reduced rate. The fund paid for employee only dental coverage from January 1, 2013 through October 15, 2015, at which time the coverage began being charged to the departments. Employees may elect to purchase dental insurance for eligible dependents. 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 financial statements.

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 Purchase Power 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. An expense and liability was recorded, based on the original offer, in the financials for last FY and after ongoing negotiations between the parties involved, additional expense and liability was recorded for this FY.

Jaci Gibson v. City of Lubbock & Oscar Santos
The Plaintiff was injured in an auto accident with a City vehicle/employee and is claiming damages as a result of the accident.

Jesus Martinez v. City of Lubbock & Jorge Romo
The Plaintiff was injured in an auto accident with a City vehicle/employee and is claiming damages as a result of the accident.

NOTE 14: LITIGATION (continued)

Jillian Standley v. City of Lubbock & Lubbock Power & Light
The Plaintiff was injured in an auto accident with a City vehicle/employee and is claiming damages as a result of the accident.

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, 2016, and the expected remaining liability is $50,000 as recorded in accrued liabilities on the Statement of Net Position.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2016

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

Total pension liability		**2016**		**2015**
Service Cost	$	2,875,400	$	2,528,145
Interest (on the total pension liability)		7,972,440		7,639,097
Changes of benefit terms		-		-
Difference between expected and actual experience		(424,313)		(1,012,979)
Change of assumptions		199,125		-
Benefit payments, including refunds of employee contributions		(5,926,334)		(5,266,488)
Net Change in Total Pension Liability		4,696,318		3,887,775
Total Pension Liability - Beginning		114,386,897		110,499,122
Total Pension Liability - Ending (a)	$	119,083,215	$	114,386,897
Plan Fiduciary Net Position				
Contributions - Employer	$	3,207,997	$	3,061,656
Contributions - Employee		1,209,360		1,127,051
Net Investment Income		145,404		5,346,027
Benefit payments, including refunds of employee contributions		(5,926,334)		(5,266,488)
Administrative Expense		(88,569)		(55,818)
Other		(4,374)		(4,589)
Net Change in Plan Fiduciary Net Position		(1,456,516)		4,207,839
Plan Fiduciary Net Position - Beginning		97,665,101		93,457,262
Plan Fiduciary Net Position - Ending (b)	$	96,208,585	$	97,665,101
LP&L's Net Pension Liability - Ending (a) - (b)	$	22,874,630	$	16,721,796
Plan Fiduciary Net Position as a Percentage of Total Pension Liability		80.79%		85.38%
Covered Employee Payroll		17,259,301		16,080,396
LP&L's Net Pension Liability as a Percentage of Covered Employee Payroll		132.54%		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 ulitimately contain information for ten years.

Changes in assumptions: In 2016, the discount rate was lowered from 7.0% to 6.75%; the inflation rate was lowered from 3.0% to 2.5%; the experience study for retirement age was updated.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2016

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

	2016	2015
Actuarially Determined Contribution	$ 3,090,958	$ 3,063,920
Contributions in relation to the actuarially determined contribution	3,090,958	3,063,920
Contribution deficiency (excess)	-	-
Covered employee payroll	17,054,069	16,406,171
Contributions as a percentage of covered employee payroll	18.12%	18.68%

Notes to Schedule of Contributions

Valuation Date:

Notes:	Actuarially determined contribution rates are calculated as of December 31st and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Ramaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market, 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation puruant to an experience study of the period 2010 - 2014.
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 ulitimately contain information for ten years.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2016

Other Postemployment Benefit Plan (OPEB)[1]

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio as a Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of covered Payroll ((b-a)/c))
10/1/07	OPEB	-	81,918,738	81,918,738	-	88,185,412	92.9
10/1/09	OPEB	-	126,167,945	126,167,945	-	95,693,148	131.8
10/1/11	OPEB	-	154,305,935	154,305,935	-	108,102,087	142.7
10/1/13	OPEB	-	155,021,339	155,021,339	-	110,942,802	139.7
10/1/15	OPEB	-	179,114,581	179,114,581	-	122,938,662	145.7

1Health/Dental Care Insurance Plan

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, 2015 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 2015-16 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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Amber Aguilar	Senior Accountant
Amber Painter, CPA	Senior Accountant
Kevin Rule	Debt & Investment Analyst

Lubbock Power & Light

The power is yours.

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