Annual Financial Report

Fiscal Years Ended September 30, 2018 and 2017

Lubbock Power & Light

The power is yours.

Annual Financial Report

For the Fiscal Years Ended September 30, 2018 and 2017

Annual Financial Report

Elected, Appointed and Principal Officials

City Council

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

Electric Utility Board

Daniel L. Odom	Chair
Don Boatman	Vice Chair
Greg Taylor	Secretary
Jerry Bell	Board Member
James Conwright	Board Member
Edwin E. "Butch" Davis	Board Member
Jane U. Henry	Board Member
Kevin McMahon	Board Member
Gwen Stafford	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
Ranu Manik, CPA	Financial Services Manager
Chad Sales	Financial Planning and Analysis Manager

Annual Financial Report

For the Fiscal Years Ended September 30, 2018 and 2017

Table of Contents

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Introduction
September 30, 2018 and 2017

Lubbock Power and Light (LP&L) is pleased to present its Basic Financial Statements for the fiscal years ended September 30, 2018 and 2017. This report is published to provide the Electric Utility Board (Board), City of Lubbock (City), bondholders, rating agencies, representatives of financial institutions, and other interested parties detailed information concerning the financial condition of LP&L. The accompanying financial statements present only LP&L, and are not intended to fairly present the financial position or results of operations of the City.

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

LP&L management has prepared, and is responsible for, the financial statements and related information included in this report. Management believes that its policies and procedures provide guidance and reasonable assurance that LP&L operations are conducted according to management's intentions, and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the net position, changes in net position, and cash flows of LP&L in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of Lubbock Power & Light, an enterprise fund of the City of Lubbock, Texas, as of September 30, 2018, and the related notes to the basic financial statements, as listed in the table of contents. The basic financial statements of Lubbock Power & Light as of September 30, 2017, were audited by other auditors. Those auditors expressed an unmodified opinion in their report dated February 8, 2018.

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 opinions on these financial statements based on our audit. We conducted our audit 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 opinions.

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, 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Board of Directors
Lubbock Power & Light

Emphasis of Matters

As discussed in Note 1-A to the basic financial statements, the financial statements present only Lubbock Power & Light, and do not purport to, and do not, present fairly the financial position of the City of Lubbock, Texas, as of September 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1-B to the basic financial statements, Lubbock Power & Light implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Beginning net position has been restated to reflect the change in accounting principle resulting from this statement. Our opinion is not modified with respect to this matter.

As discussed in Notes 1-B to the basic financial statements, Lubbock Power & Light implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017.* Implementation required Lubbock Power and Light to retrospectively reclassify goodwill from a previous acquisition to a deferred outflow of resources as of September 30, 2017. We were not engaged to audit, review or apply any procedures to the 2017 financial statements of Lubbock Power and Light, other than the reclassification of the goodwill to deferred outflows of resources, and accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements taken as a whole. Our opinion is not modified with respect to this matter.

Other Matters

<u>*Required Supplementary Information*</u>
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and pension and other post-employment benefits information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 6, 2019

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board of Directors
Lubbock Power and Light
City of Lubbock, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lubbock Power and Light, an enterprise fund the City of Lubbock, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Lubbock Power and Light's basic financial statements, and have issued our report thereon dated February 6, 2019, which included emphasis of matter paragraphs regarding the implementation of new accounting standards and presentation relating to only the enterprise fund of the City of Lubbock.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lubbock Power and Light's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lubbock Power and Light's internal control. Accordingly, we do not express an opinion on the effectiveness of Lubbock Power and Light's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lubbock Power and Light's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

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Members of the Board of Directors
Lubbock Power and Light

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 6, 2019

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Management's Discussion and Analysis
September 30, 2018 and 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, 2018 (FY 2018), compared to the fiscal year ended September 30, 2017 (FY 2017). This MD&A has been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and should be read in conjunction with the audited financial statements and accompanying notes that follow.

BASIC FINANCIAL STATEMENTS

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

Statement of Net Position: This statement includes LP&L's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. 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), 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 bond refundings, deferred outflows from goodwill, deferred outflows from pensions (contribution and investment expense) and deferred outflows from other postemployment benefits (OPEB).

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, 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 – Since December 2013, LP&L's Electric Rate/Tariff Schedule (Tariff) has provided for the recovery of all purchased power costs incurred by LP&L in serving system demand and energy requirements. The Tariff incorporates 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 intent to match 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 Tariff 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 is required by the Tariff to manage any monthly over-recovery of purchased power costs. If at any time the cumulative over-recovery 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 is required to cushion any monthly under-recovery of purchased power costs. If at any time the cumulative under-recovered 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, 2018, the $4.8 million under-recovery from FY 2017 was fully recovered and purchased power revenues exceeded purchased power costs at fiscal year-end by approximately $13.2 million. The financial statements recognize the over-recovery as an accounts payable on the Statement of Net Position and do not incorporate the associated revenue on the Statement of Revenues, Expenses, and Changes in Net Position. For more details on the PPRF over- or under-recovery changes by month, see Table 1.

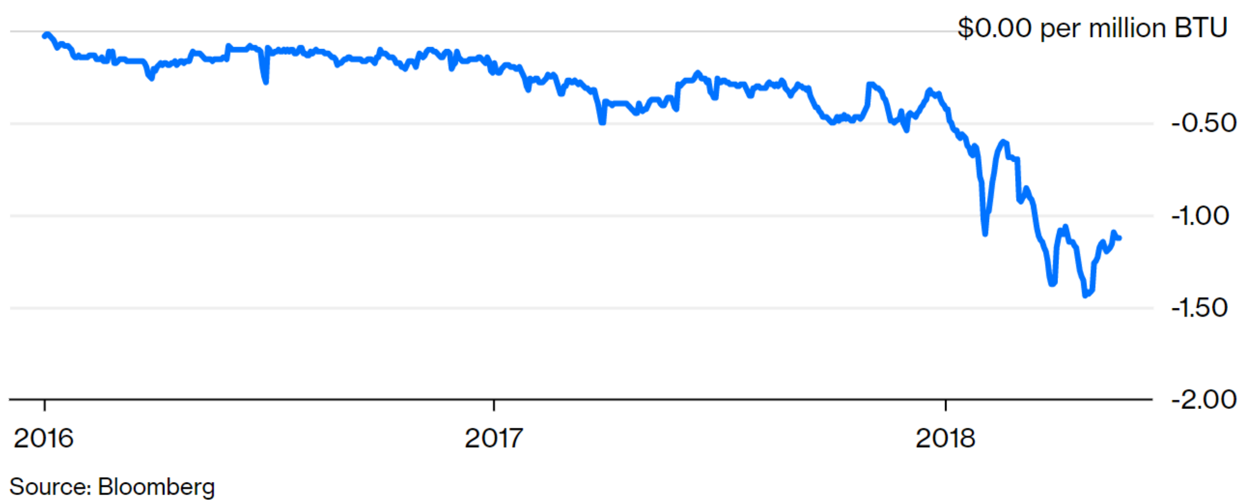
Table 1 - PPRF Recovery by Month

PPRF Fund (in millions)	09/17	10/17	11/17	12/17	01/18	02/18	03/18	04/18	05/18	06/18	07/18	08/18	09/18
Monthly Over/(Under)	$ -	$ 1.9	$ 2.2	$ (1.4)	$ 2.3	$ 2.1	$ (0.1)	$ 1.9	$ (1.1)	$ 1.3	$ 2.2	$ 3.2	$ 3.5
Cumulative Over/(Under)	$ (4.8)	$ (2.9)	$ (0.7)	$ (2.1)	$ 0.2	$ 2.3	$ 2.2	$ 4.1	$ 3.0	$ 4.3	$ 6.5	$ 9.7	$ 13.2

PPRF rates for the months of October 2017 through May 2018 were set to collect the $4.8 million under-recovery from FY 2017. Additionally, the rates throughout the same period were set to collect an additional $2.7 million dollars toward an estimated $4.1 million annual production formula true-up from Southwestern Public Service Company (SPS) that occurs annually each July (True-Up). The True-Up is allowed under a Federal Energy Regulatory Commission (FERC) form template and is provided for in the total requirements contract between SPS and WTMPA. The True-Up was $2.5 million and $3.9 million in FY 2016 and FY 2017 respectively. Both prior true-ups were a result of higher than expected costs from SPS and lower than expected energy sales volumes to spread those costs. Based on the large historical true-ups, management felt it was prudent to include a conservative estimate for the True-Up that was expected to occur in FY 2018.

PPRF rates for the months of June through September 2018 were lowered to a level that would still collect the remaining four months of the estimated True-Up from SPS, and return all over-recovered amounts to customers. Despite setting lower PPRF rates, the over-recovery continued to expand through the last four months of FY 2018. The True-Up totaled less than $0.1 million, far below the estimate totaling $4.1 million, which contributed $4.0 million toward the over-recovered position at year-end. Additionally, local natural gas prices in West Texas, as measured by the Waha index, disconnected from the New York Mercantile Exchange (NYMEX) natural gas futures prices, resulting in unanticipated fuel savings from SPS (See Figure 1). The fuel savings was passed along to LP&L through the total requirements contract.

Figure 1 - Natural gas priced in Waha, Texas; difference to NYMEX futures price



Regional natural gas prices were driven lower due to supply exceeding demand in the Permian Basin. Fuel costs were $8.2 million less than projected in FY 2018. For more details on the divergence between the NYMEX and WAHA see Table 2.

Table 2 - Divergence between the NYMEX and WAHA Indices

	10/17	11/17	12/17	01/18	02/18	03/18	04/18	05/18	06/18	07/18	08/18	09/18
NYMEX	$ 2.88	$ 3.01	$ 2.82	$ 3.87	$ 2.67	$ 2.69	$ 2.80	$ 2.80	$ 2.97	$ 2.83	$ 2.96	$ 3.00
WAHA	2.30	2.40	2.15	2.94	1.57	1.58	1.43	1.64	1.79	1.62	1.75	1.67
Variance	$ 0.58	$ 0.61	$ 0.67	$ 0.93	$ 1.10	$ 1.11	$ 1.37	$ 1.16	$ 1.19	$ 1.21	$ 1.21	$ 1.33

In summary, the PPRF fund ended FY 2018 in an over-recovered position, totaling $13.2 million. Of that amount, $4.0 million was related to the anticipated SPS annual-true-up that never came to fruition and $8.2 million was related to lower regional fuel prices. The remaining over-recovery was due to a combination of lower transmission and capacity costs coupled with slightly higher-than-expected revenues due to a warmer than expected summer.

Base Rate Adjustment – Rates are set by the Board and approved by the City Council. On September 14, 2017, the City Council approved a 5.00 percent adjustment to LP&L's base rates, which became effective on October 1, 2017. The 5.00 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 2018 revenues in an amount totaling roughly $3.5 million, as anticipated in the FY 2018 operating budget.

Unit Contingent / Power Marketing – LP&L operates the Cooke Station under a unit contingent agreement (UCA) with SPS, which continues until June 30, 2019. Additionally, LP&L contracts with a power marketing company (PMC) to register the Brandon and Massengale units in the PMC's portfolio. The agreement allows the PMC to manage and procure the natural gas needed to operate the Brandon and Massengale units and allows the PMC to bid the units into the Southwest Power

Pool (SPP) Integrated Marketplace (IM) on LP&L's behalf since LP&L is not a registered member of SPP.

In FY 2018, the total revenue produced by the LP&L generating units was $4.9 million, compared to $4.6 million in FY 2017. Of the $4.9 million, power marketing activities produced $4.5 million in revenue, and the SPS UCA payments produced $0.4 million in revenue. Power marketing revenues increased $0.3 million primarily due to lower regional natural gas prices relative the rest of the SPP IM. The lower prices made the units more appealing to the market, thus the units ran more frequently in FY 2018 compared to FY 2017.

The SPS UCA payments remained flat in FY 2018 at $0.4 million. SPS continued to make capacity payments totaling $2,120 per megawatt (MW) each month and energy payments totaling $3.50 per megawatt hour (MWh) for the Cooke Station Gas Turbines #2 (GT2) and #3 (GT3). GT3 experienced an unplanned outage for the entirety of the fiscal year, which resulted in a reduction of 17 MW of capacity related payments from SPS. GT2 experienced a major component failure on August 16, 2018, which resulted in a reduction of 17 MW of capacity related payments from SPS for the remaining days of the fiscal year.

Capital Program – A total of 22 new capital projects and 43 existing capital projects were funded during FY 2018, totaling $114.6 million. The blend of funding sources used for these projects was composed of 14.37 percent equity and 85.63 percent debt. The targeted blend of financing is set at 35 percent equity and 65 percent debt in the financial model. Due to the large amount of debt funding for customer service systems and significant transmission upgrades related to the upgrade of a portion of the system from 69 kilovolts (kV) to 115 kV, the equity/debt target for the planning horizon has shifted to be more heavily weighted with debt through FY 2020. Beginning in FY 2021, the capital program will be largely funded with cash to offset the debt funding through FY 2020.

The significant projects funded during the fiscal year included advanced metering infrastructure and customer service information systems, totaling $32.6 million; Red Raider substation, totaling $9.4 million; Slaton substation rebuild, totaling $8.0 million; 115 kV line construction from the Northwest substation to the Mackenzie substation, totaling $6.9 million; McDonald substation capacity upgrade, totaling $5.1 million; 345kV transmission line, totaling $4.0 million; 69/115 kV line rebuild from Chalker substation to Thompson substation, totaling $3.4 million; 69/115kV line rebuild from Chalker substation to Oliver substation, totaling $3.2 million; and underground electric lines, totaling $3.2 million.

A total of 17 capital projects, totaling $11.5 million, were completed and closed in FY 2018 and were moved from construction in progress to appropriate capital asset categories. The appropriation for these projects totaled $14.6 million; therefore, these projects were completed under budget in an amount totaling $3.1 million. In addition, five capital projects in the Production Department, with appropriation of $3.0 million, were closed and not completed during the fiscal year due to the decision to minimize capital investment in the generating units in anticipation of the move to ERCOT. The significant projects completed in FY 2018 included:

- 2016-17 Underground Electric Lines ($3.5 million, under budget $0.3 million) – the installation of underground primary and secondary lines used to provide electric service to new customers.

- 69kV Line – CO-OP to Slaton ($2.8 million, under budget $0.2 million) – rebuild 2.9 miles of a 69kV transmission line from the CO-OP Substation to the Slaton Substation.
- 2016-17 Distribution Transformers ($1.5 million, under budget $1.1 million) – the purchase of overhead transformers, pad mount transformers, switches and enclosures used to upgrade capacity and to serve new customers.
- Other notable projects included Lubbock Business Center Various Renovations ($0.9 million), Line Extension for Large Commercial Customer ($0.9 million, under budget $0.1 million), and 2016-17 15kV System Reconductor or Rebuild ($0.4 million, under budget $0.1 million).

Debt Issuance – In FY 2018, LP&L issued the par amount of $93.9 million in revenue bonds. The revenue bonds funded capital projects in the Capital Program. The revenue bonds were issued at a premium, totaling $12.7 million, with a true interest cost of 3.64 percent. The City also issued General Obligation Refunding Bonds, with LP&L's share being approximately $0.5 million. The refunding bonds were issued at a premium, totaling $62,991, with a deferred loss totaling $18,927. The refunding transaction resulted in decreased total debt service requirements with over 4.01 percent savings on the refunded bonds. The true interest cost for this issuance was 2.76 percent.

Meter Growth – LP&L's meter base totaled 106,555 and 105,788 meters at September 30, 2018 and 2017, respectively. The 2018 meter increase of 0.73 percent is in line with normal growth levels within the LP&L certificated area. Approximately 90 percent of the growth was attributable to new residential meters and the remaining 10 percent was related to new commercial meters.

RESULTS OF OPERATIONS

Table 3 - Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2018	2017	2016
Program revenues			
Charges for services	$ 239,178,553	$ 243,928,151	$ 222,951,614
General revenues			
Investment earnings	1,710,341	625,337	491,350
Other revenues (expenses)	878,596	(1,522,772)	(1,586,601)
Total revenues	241,767,490	243,030,716	221,856,363
Program expenses (including interest)	210,045,820	215,207,837	199,270,009
Contributions	300,281	28,879	85,741
Excess before transfers	32,021,951	27,851,758	22,672,095
Transfers	(17,041,225)	(15,886,361)	(14,757,142)
Change in net position	14,980,726	11,965,397	7,914,953
Net position, beginning of year *	181,052,812	176,627,535	168,712,582
Net position, end of year	**$ 196,033,538**	**$ 188,592,932**	**$ 176,627,535**

*Restated beginning net position for FY 2018 due to change in GASB pronouncements. See Change in Net Position in the Management Discussion and Analysis.

Total Revenues

<u>FY 2018</u> – Program revenues totaled $239.2 million, representing a 1.95 percent decrease from FY 2017. See Table 4 below for a breakdown of program revenues by major category:

Table 4 – 2018 Program Revenues

Program Revenues	2018	2017	Change
General Consumers Metered	$ 231,871,491	$ 235,914,771	$ (4,043,281)
Power Mkt / Unit Contingent	4,942,840	4,617,475	325,365
Fees, Charges, and Other	3,338,423	4,286,726	(948,302)
Uncollectible Accounts	(974,201)	(890,821)	(83,380)
Total	$ 239,178,553	$ 243,928,151	$ (4,749,598)

The primary driver of reduced program revenues was a decrease totaling $4.0 million in general consumers metered revenues (metered revenues). These revenues were down due to lower PPRF rates related to reduced purchased power costs, and were partially offset by the five percent base rate adjustment that became effective October 1, 2017, totaling roughly $3.5 million. For more detail on the breakdown of metered revenues, see the Table 5, as follows:

Table 5 – 2018 Metered Revenues

Metered Revenues	2018	2017	Change
Base Rates	$ 68,163,375	$ 64,581,198	$ 3,582,177
Purchased Power	153,068,258	160,688,685	(7,620,427)
Franchise Fee Equivalent	10,639,858	10,644,888	(5,031)
Total	$ 231,871,491	$ 235,914,771	$ (4,043,281)

Program revenues were down due to a decrease in fees and charges, totaling $0.9 million. The decrease was related to less revenue from reconnect fees; payment arrangement fees due to the waiver of these fees related to the unavailability of online payment arrangement setup throughout a majority of the fiscal year; and, a lower volume of outside work orders related to new construction. Uncollectible accounts increased $0.1 million as a result of an increase in past due balances greater than 90 days. Offsetting the decreases was an increase in power marketing/unit contingent revenues, totaling $0.3 million.

General revenues, comprised mainly of investment earnings, increased from $0.6 million in FY 2017 to $1.7 million in FY 2018 as a result of the Federal Reserve raising the fed funds target rate by 100 basis points (1.0 percent) during FY 2018, coupled with higher investment balances.

Other revenues changed from a net expense totaling $1.5 million in FY 2017 to a net revenue totaling $0.9 million in FY 2018. The FY 2018 revenue was mainly associated with the recovery of expenditures from insurance proceeds related to the failure of gas turbine #3 (GT3) at Cooke Station. FY 2017 contrasts with FY 2018 as greater losses occurred in the disposition of assets and an accrued expense was recorded in relation to Texas Tech University System (TTUS) contract negotiations during that fiscal year.

FY 2017 – Program revenues totaled $243.9 million, representing a 9.15 percent increase from FY 2016. See Table 6 for a breakdown of program revenues by major category:

Table 6 - 2017 Program Revenues

Program Revenues	2017	2016	Change
General Consumers Metered	$ 235,914,771	$ 216,142,337	$ 19,772,434
Power Mkt / Unit Contingent	4,617,475	3,622,566	994,909
Fees, Charges, and Other	4,286,726	3,954,134	332,592
Uncollectible Accounts	(890,821)	(767,424)	(123,397)
Total	$ 243,928,151	$ 222,951,613	$ 20,976,538

The primary driver of program revenues was an increase totaling $19.8 million in metered revenues. Increased PPRF rates to cover increased purchased power costs contributed $14.5 million of the metered revenue increase. The base rate adjustment of 5.75 percent, effective October 1, 2016, increased metered revenues $4.1 million. Revenues from the franchise fee equivalent (FFE) were higher in an amount totaling $1.1 million as a result of the higher PPRF and base rate revenues. For more detail on the breakdown of metered revenues, see Table 7 below:

Table 7 - 2017 Metered Revenues

Metered Revenues	2017	2016	Change
Base Rates	$ 64,581,198	$ 60,435,719	$ 4,145,479
Purchased Power	160,688,685	146,186,549	14,502,136
Franchise Fee Equivalent	10,644,888	9,520,069	1,124,819
Total	$ 235,914,771	$ 216,142,337	$ 19,772,434

Power marketing/unit contingent revenues provided an additional increase in revenues totaling $1.0 million and increases in reconnect fees and late charges drove revenues higher in an amount totaling $0.3 million. Offsetting the increased revenue was an increase in uncollectible accounts as a result of higher charge-offs from FY 2014.

General revenues were mainly comprised of investment earnings. Investment earnings increased from $0.5 million in FY 2016 to $0.6 million in FY 2017, or 27.3 percent, as a result of the Federal Reserve raising the fed funds target rate by 75 basis points (0.75 percent) during 2017.

Other revenues (expenses) totaled $1.5 million in net expense, and were down a net of less than $0.1 million from FY 2016. Within other revenues (expenses), street light transfers to the City decreased $0.2 million and miscellaneous capital project expenditures decreased $0.4 million. Offsetting those decreases was an increase in the disposition of assets totaling $0.4 million and lower rental income, totaling $0.1 million. The increase in the disposition of assets was mainly caused by the disposal of the aged emissions monitoring systems at Cooke Station at a loss

In FY 2017, $1.2 million was expensed in relation to the calculated FY 2016 and FY 2017 customer account credits that were anticipated to be due to TTUS as a result of the contract claim negotiations. The FY 2017 amount was nearly equivalent to the FY 2016 accrued expense totaling $1.2 million that was also recorded as a result of the contract claim with TTUS. The net effect of these entries on miscellaneous expense, between FY 2016 and FY 2017, was negligible.

Program Expenses

FY 2018 – Program expenses, excluding interest expense, totaled $205.9 million, representing a 3.1 percent decrease from FY 2017. The cost of purchased fuel and power, totaling $154.9 million, represented 73.8 percent of total program expenses and decreased $7.4 million from FY 2017. The breakdown of purchased power costs are shown in Table 8, as follows:

Table 8 - 2018 Purchased Power Costs

Purchased Power Costs	2018	2017	Change
Fuel	$ 68,621,615	$ 80,657,601	$ (12,035,986)
Transmission	28,569,248	24,356,993	4,212,255
Demand	46,291,784	46,113,253	178,531
Energy	11,441,388	11,208,560	232,828
Total	$ 154,924,035	$ 162,336,407	$ (7,412,372)

- Fuel costs decreased $12.0 million due to the high correlation to natural gas prices. NYMEX natural gas prices averaged $2.94 per one million British Thermal Units (MMBtu) during FY 2018 and $3.13 per MMBtu during FY 2017. Regional prices also diverged from the NYMEX index significantly during FY 2018 as discussed above in *Financial Highlights – Purchased Power Pass-Through Rate Stability*.
- Transmission costs were $4.2 million higher during FY 2018. $2.1 million of the $4.2 million increase was attributable to increased regional and zonal transmission costs paid to SPP. $1.3 million of the increase was explained by lower credits from auction revenue rights and transmission congestion credits associated with SPP transmission network costs. $0.5 million of the $4.2 million increase was related to higher SPP wholesale distribution service charges. The remaining $0.3 million increase was related to higher SPP ancillary charges and fees.
- Demand costs were $0.2 million higher in FY 2018. In FY 2017, LP&L paid an average of $7.86 per kilowatt (kW) including the True-Up, and anticipated paying an average of $8.14/kW in FY 2018. However, SPS paid a lower corporate tax rate in 2018 as a result of the Tax Cuts and Jobs Act of 2017 and that tax savings was passed along to SPS' wholesale customers through a reduced demand charge. LP&L ultimately paid an average of $7.94/kW in FY 2018, mainly as a result of SPS' lower tax rate.
- Energy costs were $0.2 million higher in FY 2018. LP&L's energy costs were $0.2 million lower as a result of the tax savings mentioned above; offsetting these savings was a $0.4 million increase in SPS' production expenses.

Program expenses, excluding purchased power costs and interest expense, totaled $50.9 million, an increase of $0.8 million, or 1.6 percent, compared to FY 2017. The increase was mainly driven by increases in other services and charges and depreciation and amortization. The breakdown of program expenses is shown in Table 9 below:

Table 9 – Program Expenses, Excluding Purchased Power Costs and Interest Expense

Select Program Expenses	2018	2017	Change
Personal services	$ 19,606,822	$ 20,179,531	$ (572,709)
Supplies	1,014,137	1,104,042	(89,905)
Maintenance	2,399,163	2,434,484	(35,321)
Other services and charges	10,321,429	9,145,848	1,175,581
Depreciation and amortization	17,608,182	17,293,626	314,556
Select Program Expenses	$ 50,949,733	$ 50,157,531	$ 792,202

Personal services decreased $0.6 million in FY 2018. Expenses related to pensions decreased $1.6 million (see "Note 8: Retirement Plan") offset by increased expenses related to other post-employment benefits (OPEB) totaling $0.6 million (see "Note 9: Other Postemployment Benefits"). Additionally offsetting the reduction in pension expenses was an increase in payroll-related personal services totaling $0.4 million. The increase in payroll was related to the hiring of a cybersecurity position; the reclassification of a key accounting position; an increased allocation of Distribution Department labor to operations and maintenance; and a reduced reimbursement for personal services from the Water, Wastewater, Storm Water and Solid Waste Utilities for those utilities' share of customer service/billing costs (Business Office Allocation). The increase in payroll was partially offset by a decrease in payroll-related personal services due to attrition in the Production department and due to a decreased allocation of labor to operations and maintenance in the Customer Service Department.

Supplies decreased $0.1 million primarily due to lower printing costs related to the new billing and payment solution and due to lower uniform costs; offset by a lower reimbursement from the City for supplies related to the Business Office Allocation.

Other Services and Charges increased $1.2 million in FY 2018. This increase was largely a result of one-time system costs associated with the installation of the new billing and payment solution as well as one-time trailing charges related to the old billing and payment solution, totaling just under $1.0 million. Expenses also increased as a result of continued legal and engineering costs associated with the Electric Reliability Council of Texas (ERCOT) transition, totaling $0.4 million. Additionally, costs from the City increased $0.7 million in the form of higher information technology charges, higher insurance charges, and higher water charges associated with running the Massengale plant more frequently during FY 2018. Offsetting the increases in Other Services and Charges were decreases associated with lower remediation expenses for Cooke Station and an increased reimbursement from the City associated with the Business Office Allocation valued at $0.6 million.

Depreciation and amortization expense increased $0.3 million in FY 2018 as a result of increased depreciable capital assets relative to FY 2017. Interest and debt-related expense increased from FY 2017 in an amount totaling $1.5 million due to higher bond interest payments and bond issuance costs associated with the 2018 issuance.

FY 2017 - Program expenses, excluding interest expense, were $212.5 million, representing an 8.9 percent increase from FY 2016. The cost of purchased fuel and power, totaling $162.3 million, represented 75.4 percent of total program expenses and increased $16.5 million from FY 2016. The breakdown of purchased power costs are shown in Table 10, as follows:

Table 10 – 2017 Purchased Power Costs

Purchased Power Costs	2017	2016	Change
Fuel	$ 80,657,601	$ 70,689,339	$ 9,968,262
Transmission	24,356,993	21,625,070	2,731,923
Demand	46,113,253	40,585,944	5,527,309
Energy	11,208,560	12,955,834	(1,747,274)
Total	$ 162,336,407	$ 145,856,187	$ 16,480,220

- Fuel costs increased $10.0 million and were highly correlated to natural gas prices. Natural gas prices averaged $2.37 per one million British thermal units (MMBtu) during FY 2016 and $3.13 per MMBtu during FY 2017.
- Transmission costs were $2.7 million higher during FY 2017. $1.1 million of the $2.7 million increase was a result of an implementation of a transmission rate recovery mechanism in the SPP IM. The remaining transmission cost increase was attributable to increased regional and zonal transmission costs paid to SPP and to slightly higher volume usage by the LP&L system.
- Demand costs were $5.5 million higher in FY 2017 primarily due to a higher average demand rate from SPS and a slightly higher volume usage by the LP&L system; the average rate in FY 2016 was $6.84/kW compared to $7.45/kW in FY 2017.
- Energy costs were down $1.7 million in FY 2017. The decrease was primarily a result of a lower annual energy true up from SPS offset by a higher energy rate. The energy portion of the true-up decreased $2.8 million while the higher energy rate increased costs in an amount totaling $1.1 million.

Program expenses, excluding purchased power costs and interest expense, totaled $50.2 million, an increase totaling $0.8 million, or 1.7 percent, compared to FY 2016. The increase was made up of $0.3 million in personal services, $0.1 million in supplies, $0.3 million in maintenance, and $1.6 million in other services and charges, offset by a $1.5 million decrease in depreciation and amortization. The decrease in depreciation and amortization expenses was primarily caused by assets acquired from SPS in 2010 that fully depreciated in FY 2016. Depreciation also decreased in FY 2017 due to a change in the useful lives of the capital assets. During the FERC asset evaluation study in FY 2016, capital asset useful lives were compared to industry standards and were changed to reflect those standards. The change also brought a standard of uniformity to the capital assets that had not existed prior to the change. The change in useful lives was completed near the end of FY 2016 and had a minor impact on the financial statements. FY 2017 reflected a full year's worth of depreciation and amortization based on the new useful lives.

Personal services increased $0.3 million in FY 2017. Pension expenses were $0.3 million higher and payroll-related personal services were $0.7 million higher due to increased terminal pay for three long-term employees, mid-year raises for meter readers, and engineers allocating more labor to operations and maintenance compared to FY 2016; offsetting these increases was a $0.7 million decrease in OPEBs related to positive changes in the health benefits plan. Supplies increased $0.1 million primarily due to higher customer statement printing costs related to printer downtime, higher uniform costs, and higher safety supplies; offset by lower chemical costs at Cooke Station. Maintenance increased $0.3 million due to higher maintenance costs for underground and overhead infrastructure, slightly offset by lower maintenance costs for production infrastructure. Other Services and Charges increased as a result of legal and engineering services related to the ERCOT integration, remediation expenses at Cooke Station, and hydrogen cooling and engineering services at Massengale station.

Interest and debt-related expense decreased from FY 2016 in an amount totaling $1.4 million due to the timing of the amortization of premiums, discounts, and deferred items. These items are amortized based on the effective interest method of a given outstanding debt issuance. The amortization of premiums, discounts, and deferred items can fluctuate related to balances of the debt instruments and the remaining balances of the premiums, discounts, and deferred items.

Contributions

FY 2018 – Contributions increased from $28,879 in FY 2017 to $300,281 in FY 2018 as a result of increased right-of-way acquisitions associated with the increase in transmission construction related to the 69kV to 115kV transmission upgrade project.

FY 2017 – Contributions decreased from $85,742 in FY 2016 to $28,879 in FY 2017 due to fewer right-of-way acquisitions in FY 2017 relative to the prior fiscal year.

Transfers

FY 2018 – Net transfers totaled $17.0 million, up from $15.9 million in FY 2017. The transfers were comprised of a payment to the City in lieu of property tax, totaling $2.2 million; a payment to the City as a franchise fee equivalent, totaling $11.0 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 $1.5 million; a payment to the City's Debt Service Fund to fund LP&L's portion of the Citizen's Tower debt service, totaling $2.5 million; offset by a transfer-in totaling $1.3 million from the Water, Wastewater, Storm Water and Solid Waste funds constituting those utilities' share of the Citizen's Tower debt service related to the Customer Service Department. The overall increase in transfers is primarily due to the Citizen's Tower debt service.

FY 2017 – Net transfers increased $1.1 million, up from $14.8 million in FY 2016. The transfers were comprised of a payment to the City in lieu of property tax, totaling $2.3 million; a payment to the City as a franchise fee equivalent, totaling $11.3 million; an indirect cost allocation transfer to the City to cover certain administrative costs, totaling $1.0 million; payments to WTMPA for management and administrative services, totaling $1.4 million; offset by a transfer-in totaling $0.1 million from the Water fund for the reimbursement of personnel costs incurred by LP&L for dispatch services. The increase is primarily due to the increase in metered revenues that increased the franchise fee equivalent and the payment to the City in lieu of property tax.

Change in Net Position

FY 2018 – Net position for FY 2018 and FY 2017 was $196.0 million and $181.1 million (as restated), respectively. Due to the adoption of GASB 75, the FY 2017 net position was restated as required by first eliminating the existing OPEB liability totaling $9.4 million and then recording a prior period adjustment to recognize the current OPEB liability totaling $16.9 million. Both of these adjustments were netted against Net Position, resulting in a downward restatement of previously reported net position, totaling $7.5 million.

FY 2018 income before transfers, totaling $32.0 million, was $4.2 million higher than the FY 2017 income due to a $1.3 million decrease in total revenues, a $0.3 million increase in capital contributions (easements), and a $5.2 million decrease in program expenses.

Net transfers, totaling $17.0 million, are deducted from income to provide the total change in net position. LP&L's change in net position was a gain totaling $15.0 million compared to a gain totaling $12.0 million in FY 2017 (before restatement), reflecting an increase totaling $3.0 million in net position.

FY 2017 - Net position for the years ended September 30, 2017 and 2016 was $181.1 million (as restated) and $176.6 million, respectively.

FY 2017 income before transfers, totaling $27.9 million, was $5.2 million higher than the FY 2016 income due to a $21.2 million increase in total revenues and a $15.9 million increase in program expenses.

Net transfers, totaling $15.9 million, are deducted from income to provide the total change in net position. LP&L's change in net position was a gain totaling $12.0 million (before restatement) compared to a gain totaling $7.9 million in FY 2016, reflecting an increase totaling $4.1 million in net position.

FINANCIAL POSITION

Condensed Statements of Net Position

Table 11 - Condensed Statements of Net Position

	2018	2017	2016
Assets:			
Current assets	$ 119,993,463	$ 102,917,610	$ 97,339,519
Capital assets, net	232,985,627	221,115,360	222,243,250
Noncurrent investments	135,717,814	46,994,423	33,405,967
Prepaid Expenses	1,477,776	1,611,109	1,744,443
Total assets	490,174,680	372,638,502	354,733,179
Deferred outflows of resources	5,264,975	8,961,138	11,085,460
Liabilities:			
Current liabilities	61,828,870	46,561,417	44,674,388
Noncurrent liabilities	234,121,088	145,839,744	143,610,556
Total liabilities	295,949,958	192,401,161	188,284,944
Deferred inflows of resources	3,456,159	605,547	906,160
Net position:			
Invested in capital assets, net of related debt	128,869,898	129,981,725	118,531,721
Restricted	20,372,130	10,354,109	10,392,293
Unrestricted	46,791,510	48,257,098	47,703,521
Total net position	**$ 196,033,538**	**$ 188,592,932**	**$ 176,627,535**

Current Assets

FY 2018 – Current assets at September 30, 2018, totaling $120.0 million were $17.1 million higher than the balance at September 30, 2017, mainly due to a $20.9 million increase in investments and a $0.1 million increase in inventory. The increases were offset by a decrease totaling $0.5 million in cash and cash equivalents and due to a decrease totaling $3.4 million in accounts receivables.

Cash and cash equivalents and investments collectively increased $20.4 million mainly as a result of the October 1, 2017 base rate adjustment, totaling $3.5 million, and the over-recovery of PPRF revenues as discussed in the *Financial Highlights* section, totaling $18.0 million.

The $3.4 million decrease in accounts receivable was due primarily to eliminating the PPRF receivable (under-recovery of PPRF) through the over-recovery of purchased power expenses during FY 2018 as further discussed in the *Financial Highlights* section. For more detail on Receivables, see Table 12 as follows:

Table 12 – 2018 Receivables

Receivables	2018	2017	Change
PPRF Receivables	$ -	$ 4,781,760	$ (4,781,760)
Non-PPRF Receivables	30,471,794	29,155,894	1,315,900
Change in Non-PPRF Receivables	$ 30,471,794	$ 33,937,654	$ (3,465,860)

<u>FY 2017</u> - Current assets at September 30, 2017, totaling $102.9 million were $5.6 million higher than the balance at September 30, 2016, mainly due to a $7.4 million increase in investments, a $3.8 million increase in accounts receivable, and a $0.3 million increase in inventory. The increases were offset by a decrease totaling $4.7 million in cash and cash equivalents and $1.2 million decrease in the purchased power under-recovery.

Cash and cash equivalents and investments increased $2.7 million mainly due to the October 1, 2016 base rate adjustment and the over-recovery of PPRF revenues, offset by increased debt service payments and increased transfers out.

Larger summer customer bills related to the increased cost of purchased power drove the $2.6 million increase in accounts receivable. This increase was offset by the reduction of the under-recovery of purchased power expenses, totaling $1.2 million. For more detail on Receivables, see Table 13 as follows:

Table 13 - 2017 Receivables

Receivables	2017	2016	Change
PPRF Receivables	$ 4,781,760	$ 6,011,465	$ (1,229,705)
Non-PPRF Receivables	29,155,894	25,347,371	3,808,523
Change in Non-PPRF Receivables	$ 33,937,654	$ 31,358,836	$ 2,578,818

Capital Assets, Net

<u>FY 2018</u> - At September 30, 2018, net capital assets totaling $233.0 million increased $11.9 million from $221.1 million at September 30, 2017, due to capital spending outpacing depreciation for 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. The largest increases are found in the Distribution Plant line item and in the Construction in progress line item. Construction in progress is largely comprised of work associated with LP&L's transmission and distribution upgrades.

<u>FY 2017</u> – At September 30, 2017, net capital assets totaling $221.1 million decreased $1.1 million from $222.2 million at September 30, 2016, due to depreciation outpacing capital spending for the acquisition and development of capital assets.

Noncurrent Assets

FY 2018 – Noncurrent restricted assets (including restricted investments and prepaid expenses) totaled $137.2 million at September 30, 2018, an increase totaling $88.6 million compared to September 30, 2017. The increase was attributable to the bond issuance in July 2018, with a par amount totaling $93.9 million, offset by bond fund expenditures throughout the fiscal year.

FY 2017 - Noncurrent restricted assets totaled $48.6 million at September 30, 2017, an increase totaling $13.5 million compared to September 30, 2016. The increase was largely attributable to the August 2017 bond issuance, with a par amount totaling $17.8 million, offset by bond fund expenditures throughout the fiscal year.

Current Liabilities

FY 2018 – Excluding current maturities of debt totaling $18.6 million, current liabilities increased $12.6 million, from $30.6 million at September 30, 2017, to $43.2 million at September 30, 2018. The increase was primarily related to an increase in accounts payable associated with the PPRF over-recovery, in addition to routine accounts payable and increased accrued interest, offset by lower due to related party, accrued liabilities, and customer deposits.

Accounts payable increased $17.4 million, with $13.2 million of that amount related to the PPRF over-recovery as discussed in the *Financial Highlights* section. Additionally, $0.7 million of the increase was associated with FFE revenue collected from customers but not yet earned as a result of the PPRF over-recovery. The remaining $3.6 million of increase was mainly related to capital expenditures in FY 2018. For more detail on Payables, see Table 14 below.

Table 14 - 2018 Accounts Payable

Accounts Payable	2018	2017	Change
PPRF Payable	$ 13,203,141	$ -	$ 13,203,141
FFE Payable	660,157	-	660,157
Accounts Payable	5,098,815	1,531,608	3,567,207
Change in Accounts Payable	$ 18,962,113	$ 1,531,608	$ 17,430,505

Accrued interest payable increased $1.0 million, with the majority of the increase related to the 2018 debt issuance.

The due to related party liability decreased $3.3 million due to a smaller amount owed to WTMPA as a result of lower purchased power costs in September 2018, compared to September 2017. Accrued liabilities decreased $2.5 million, with $2.2 million of the decrease related to the payment of customer account credits to TTUS during FY 2018. The remaining $0.3 million was comprised of a $0.2 million decrease for environmental remediation at Cooke Station and $0.1 million in decreased accrued liabilities for routine payables related to wages and sales tax.

The decrease in customer deposits was due to deposit refunds, totaling $0.8 million, related to the deposit refund program that became effective in October 2015, offset by deposits from new customers totaling $0.7 million. The deposit refund program 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 5,967 deposits in FY 2018.

FY 2017 - Excluding current maturities of debt totaling $15.9 million, current liabilities increased $1.2 million, from $29.5 million at September 30, 2016, to $30.6 million at September 30, 2017. The increase was related to higher accrued liabilities, due to related party liability, and compensated absences, offset by lower accounts payable, accrued interest, and customer deposits.

Accrued liabilities increased $1.8 million with $1.2 million related to accrued liabilities associated with pending customer account credits with TTUS. The remaining $0.6 million was comprised of $0.3 million for environmental remediation at Cooke Station and $0.3 million in accrued liabilities for routine payables related to wages and sales tax. The due to related party liability increased $0.4 million due to additional amounts owed to WTMPA as a result of higher purchased power costs in September 2017, compared to September 2016. Compensated absences increased $0.1 million due to an approximate five percent increase in actual vacation and sick accruals between FY 2016 to FY 2017. The increase impacted both the short and long-term portions of the compensated absences liability.

The decline in accounts payable, totaling $0.4 million, was related to a decrease in vouchers payable related to a decline in capital expenditures in FY 2017. The decrease in accrued interest payable, totaling $0.3 million, was related to the change in the accounting of premiums and discounts as discussed in the Non-Operating Expenses and Transfers section. The decrease in customer deposits was due to deposit refunds, totaling $1.1 million, offset by deposits for new customers totaling $0.7 million.

Other Noncurrent Liabilities

FY 2018 – Excluding the noncurrent portion of debt totaling $198.6 million, long-term liabilities increased $2.3 million to $35.6 million at September 30, 2018. This increase was driven by a $10.0 million increase in other postemployment benefits (OPEB) offset by a $7.5 million decrease in net pension obligation and a $0.2 million decrease in long-term compensated absences.

OPEB increased $10.0 million as a result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 requires that government entities report the full balance of the OPEB liability on the face of the financial statements, whereas the full balances were historically reported in the *Required Supplementary Information* section of the Annual Financial Report. See "Note 9: Other Postemployment Benefits" in the Notes to the Financial Statements for more details.

For calendar year 2018, the following changes to the health benefits plan were implemented: post-65 retirees were no longer included in the health benefit plan but were given a $150/month stipend to supplement the cost of choosing a Medicare plan; employees began paying $20/month toward their healthcare premiums; deductibles and co-pays increased; and the City's health benefit plan was no longer grandfathered under the Affordable Care Act. See "Note 9: Other Postemployment Benefits" in the Notes to the Financial Statements for more details.

The net pension obligation decreased $7.5 million as a result of improved net investment income within the pension fund, offset slightly by higher benefit payments. See "Note 8: Retirement Plan" in the Notes to the Financial Statements for more details.

FY 2017 - Excluding the noncurrent portion of debt totaling $112.6 million, long-term liabilities increased $0.7 million to $33.3 million at September 30, 2017. This increase was driven by a $0.6 million increase in OPEB and a $0.1 million increase in net pension obligation.

The OPEB increase from FY 2016 to FY 2017 was approximately half of the increase from FY 2015 to FY 2016. The City made changes to the benefit plans for employees and retirees during the FY 2018 budget process that had a positive impact on the OPEB calculation for FY 2017. Those changes are identified in the FY 2018 section above.

Net Position

FY 2018 – Total net position increased $15.0 million, from a restated FY 2017 net position of $181.0 to $196.0 million in FY 2018. The subcomponents of net position changed as follows: (i) net investment in capital assets decreased $1.1 million mainly due to a $76.3 million increase in bond proceeds and a $11.9 million increase in net capital assets, offset by an $88.7 million increase in principal amounts owed to bondholders; (ii) restricted for debt service increased in the amount of $10.0 million as described in the next paragraph; (iii) unrestricted net position decreased $1.5 million; and (iv) the restatement of beginning net position related to the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* pronouncement, reduced the prior year net position in the amount of $7.5 million.

The $20.3 million balance in restricted for debt service is related to the capitalized interest fund established as a result of the 2017 and 2018 revenue bond issuances, totaling $10.0 million, the debt service reserve fund, totaling $8.5 million, and the interest and sinking fund, totaling $1.8 million. The amount of capitalized interest remaining at September 30, 2018 for each bond series was $2.3 million for the 2017 Revenue Bonds and $7.7 million for the 2018 Revenue Bonds. These funds are established by bond covenant in order to make principal and interest payments on these bond issuances until LP&L enters ERCOT and begins receiving transmission cost of service (TCOS) revenues to cover the annual debt service requirements.

FY 2017 – Total net position increased $12.0 million from FY 2017 to FY 2018. The subcomponents of net positions changed as follows: (i) net investment in capital assets increased $11.5 million mainly due to a $13.1 million increase in bond proceeds, offset by a $2.2 million increase in principal amounts owed to bondholders; (ii) restricted for debt service decreased slightly due to lower debt service reserve funding requirements; and (iii) unrestricted net position increased $0.6 million.

LONG-TERM DEBT

FY 2018 – As of September 30, 2018, LP&L's total outstanding debt was $217.1 million. Bonds payable was comprised of $28.5 million in certificates of obligation, $167.1 million in revenue bonds, and $21.5 million in bond premiums. All outstanding debt is comprised of fixed interest rate instruments.

New Issuance – In July 2018, LP&L issued the par amount of $93.9 million in Electric Light and Power Revenue Bonds, Series 2018. The true interest cost for this issuance, which has maturities in 2018 through 2048, was 3.64 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 2018, the City issued approximately $96.2 million General Obligation Refunding Bonds, Tax-Exempt Series 2018, with LP&L's portion being approximately $0.5 million. This refunding transaction resulted in decreased total debt service requirements and a 4.01 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2018 through 2030, is 2.76 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 $11.5 million on its revenue bonds and $4.4 million on its certificates of obligation.

FY 2017 - As of September 30, 2017, LP&L's total outstanding debt was $128.5 million. Bonds payable was comprised of $33.0 million in certificates of obligation, $84.7 million in revenue bonds, and $10.8 million in net deferred losses on advanced refundings, bond premiums, and discounts. All outstanding debt was comprised of fixed interest rate instruments.

New Issuance – In August 2017, LP&L issued the par amount of $17.7 million in Electric Light and Power Revenue Bonds, Series 2017. The true interest cost for this issuance, which has maturities in 2017 through 2047, was 3.60 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 November 2016, the City issued approximately $36.8 million General Obligation Refunding Bonds, Tax-Exempt Series 2016A, with LP&L's portion being approximately $3.2 million. This refunding transaction resulted in decreased total debt service requirements and a 13.86 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2016 through 2034, was 2.47 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 $10.8 million on its revenue bonds and $4.5 million on its certificates of obligation.

CURRENTLY KNOWN FACTS

Future Power Supply – LP&L is currently served by a total requirements power service agreement with SPS that expires on May 31, 2019 (SPS Power Agreement). Beginning on June 1, 2019, LP&L will be served by a 400 MW SPS capacity and energy scheduling contract, effective through May 31, 2021 (SPS Capacity Agreement); a 170 MW SPS partial requirements power purchase agreement, effective through May 31, 2044 (SPS Partial Requirements); a 100.8 MW power purchase agreement between WTMPA and Elk City II Wind, LLC, effective through May 31, 2032 (Elk City Wind PPA); and 112 MW of dependable natural gas fired generation. Expiration of the SPS Capacity Agreement on May 31, 2021 leaves a significant amount of capacity required to meet projected LP&L needs as of June 1, 2021.

On October 20, 2015, LP&L's Electric Utility Board and the City Council both took formal action to authorize LP&L to seek interconnection of 470 MW of LP&L's load (Affected Load) with ERCOT. LP&L did not seek to connect the remaining, approximately 170 MW of electric load to ERCOT (Unaffected Load). Since that time, LP&L has endeavored to gain regulatory approval to move the Affected Load from SPP to ERCOT. The reasoning for this move, and steps that LP&L and regulatory authorities have taken to facilitate this move, are described in the following sections:

<u>Expiration of SPS Power Agreement and Future Power Supply:</u> The SPS Power Agreement is a total requirements contract executed in 2004 between WTMPA and SPS. Due to the anticipated termination of the SPS Power Agreement in 2019, LP&L completed (from 2013 to 2015) thorough reviews of its operations and finances, focusing on the future. Based on its studies, LP&L anticipated that the City would require approximately 640 MW of total generation by June 2021 to supply its projected customers.

LP&L explored all options for a future power supply beyond the expiration of the SPS Power Agreement in June 2019, including the possibility of new power purchase agreements, tolling agreements, new generation, partnerships with other utilities, or a combination of each. LP&L's consultant, Black & Veatch Corporation (the "Consultant"), completed evaluations to enable central decisions as to whether the power supply should be from a power purchase/tolling agreement or self-built generation. The scope of work with the Consultant included a site selection study, electrical interconnect assessment, water/wastewater assessment, natural gas supply assessment, analysis on participation in the SPP IM, self-build cost and performance estimates, operations and maintenance assessments, licensing and permitting assessment, technology selection, assistance regarding a request for proposal (the Power Supply RFP) for power supply, and negotiation support with a potential proposer.

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

LP&L estimated that a possible interconnection with ERCOT would not be possible by June 2019; therefore, the utility endeavored to identify a capacity and energy supply after the expiration of the

SPS Power Agreement on May 31, 2019. Ultimately, the Electric Utility Board, City Council, and SPS approved the SPS Capacity Agreement in March 2017, providing LP&L with 400 MW of capacity and energy scheduling beginning in June 2019 and extending through May 2021. A separate agreement with Northern States Power (NSP) provided a price ceiling for energy purchases by implementing a 16-heat rate call option should SPP IM prices exceed a 16-heat rate price. The price of energy can be calculated by multiplying the MMBtu price of natural gas by the heat rate of any given unit. Thus, the 16-heat rate call option provides a dynamic ceiling that will fluctuate with the price of natural gas. In the event that prices do exceed the call option, NSP will reimburse LP&L for the full amount of energy purchased from the SPP IM above the call option price. The City believes that the signing of these contracts secures affordable and reliable power for the transition period between the expiration of the SPS Power Agreement and the interconnection with ERCOT.

<u>The Electric Reliability Council of Texas</u>: Founded in 1970, ERCOT became the primary overseer of Texas' power grid and the independent system operator for a region that serves 90 percent of the state's electric load, or approximately 24 million customers. Since not all of Texas is deregulated, including the City of Lubbock, ERCOT manages the areas both where residents have the power to choose a retail electric provider, and other areas what are not open to retail electric choice, including municipalities and cooperatives that retain the local option to deregulate. ERCOT schedules power on an electric grid that connects more than 46,500 miles of transmission lines and more than 610 generating units.

<u>ERCOT Integration Request Process</u>: The formal process related to LP&L's integration of the Affected Load into ERCOT began with the submittal of its ERCOT Integration Study to ERCOT's Regional Planning Group (RPG) in December 2015. In its Integration Study, LP&L considered and proposed certain transmission facilities that would result in the integration of the relevant portion of LP&L's own system with that of ERCOT. Interested parties had the opportunity to file comments on that transmission plan at RPG within the ERCOT process, and did so in January 2016. In February 2016, the Public Utility Commission (PUC or Commission) initiated PUC Docket No. 45633 *Project to Identify Issues Pertaining to Lubbock Power & Light's Proposal to Become Part of the Electric Reliability Council of Texas* (Project), and in March, requested that comments and reply comments from parties on particular questions be filed in April 2016. A workshop was held regarding the Project on May 3, 2016 to consider those comments.

In June 2016, ERCOT filed its own Study of the Integration of the LP&L system into the ERCOT System regarding the Project. That study determined that a configuration of transmission projects with three connection points between the ERCOT grid and the LP&L system—designated as Option 4ow—would present the lowest societal costs once capital costs and production cost effects were considered. At the June 2016 PUC Open Meeting, the PUC identified the need for joint cost-benefit studies by SPP and ERCOT followed by a public interest determination docket and a Certificate of Convenience and Necessity (CCN) case. Later that month, LP&L filed a statement indicating that it would be performing a study to gauge the effect of its integration into ERCOT on customers in ERCOT and SPP, as well as its own system. On June 30, 2017, July 7, 2017, and September 1, 2017, ERCOT, SPP, and LP&L, respectively, filed their studies with the PUC.

On September 1, 2017, LP&L filed its application in PUC Docket No. 47576, *Application of the City of Lubbock through Lubbock Power and Light for Authority to Connect a Portion of Its System with the Electric*

Reliability Council of Texas (Application). Through the Application, LP&L was seeking Commission authority to disconnect the Affected Load from SPP and to connect to ERCOT, along with related findings that would facilitate LP&L's integration into the ERCOT system, consistent with the public interest.

From October 2017 to January 2018, LP&L worked closely with ERCOT and PUC staff in preparation of a public interest hearing, which took place in January 2018. In March 2018, the PUC approved the integration of the Affected Load to the ERCOT system through an Order in PUC Docket No. 47576. With approval by the PUC, LP&L then moved into the next phase of the ERCOT integration project, which is comprised of the construction of transmission assets to connect the LP&L system to the ERCOT power grid. Assuming the timely completion of construction of such transmission assets, the integration of the Affected Load is expected to take place on June 1, 2021.

ERCOT Transmission Assets and Approval Process: New transmission lines and substations necessary for the ERCOT integration will be studied and decided upon as part of the CCN cases to take place through the PUC. There are four different CCN's associated with the ERCOT interconnection. For each CCN, there is a statutory twelve-month limit for PUC approval:

- PUC Docket No. 48625 - Ogallala to Abernathy – application filed September 6, 2018
- PUC Docket No. 48668 - Abernathy to Wadsworth – application filed September 20, 2018
- PUC Docket No. 48909 - Wadsworth to Farmland – application filed on December 19, 2019
- Docket No. TBD - Abernathy to North – application to be filed on or about February 19, 2019

Construction cannot begin until after CCN applications are approved. The PUC will determine the route to be used for construction. After the PUC has determined routes, easements will need to be acquired. It is expected to take three to six months to secure easements. After the routes are determined, engineering work can begin, which will take approximately six months to complete (some engineering will be done in advance of CCN approvals). It is anticipated that certain long-lead materials such as steel, conductor, and autotransformers will be ordered prior to approval of the CCN applications to facilitate an expedited construction schedule.

LP&L currently estimates the cost of additional infrastructure necessary for LP&L to integrate into ERCOT at approximately $400 million, of which approximately one half will be owned by LP&L. The LP&L cost to fund the needed additional infrastructure is intended to be funded through short-term financing during the construction phase and converted to long-term financing upon substantial completion. Debt service will be paid from a new TCOS revenue stream. Capital projects currently included in LP&L's existing long-term capital improvement plan are related to reliability and will cover a portion of system improvements necessary prior to a final transition. The PUC Docket No. 47576 states that "…LP&L may submit an application to the Commission to establish wholesale transmission rates no less than eight months in advance of the anticipated integration date so that LP&L may charge transmission rates beginning at the integration date if the Commission has approved a transmission rate at that time, provided that all assets included in the rate calculation are energized, used, and useful prior to the effective date of the transmission rate." The authorization of transmission rates minimizes risk to LP&L ratepayers by ensuring a revenue stream at the time of the ERCOT integration.

One of the findings within the PUC Docket No. 47576 stated that Sharyland Utilities, L.P. (Sharyland) and LP&L are the only utilities that own the endpoints included in Option 4ow, and therefore it is appropriate that LP&L and Sharyland provide the Option 4ow transmission facilities. The Order also stated that it is appropriate for Sharyland and LP&L to determine between themselves the portions of the Option 4ow facilities that each will build. On August 21, 2018, LP&L and Sharyland approved a Participation Agreement that sets forth the rights, responsibilities, and expectations of Sharyland and LP&L in connection with the LP&L integration to ERCOT and memorializes the terms and conditions regarding, (i) the ownership allocation between LP&L and Sharyland, (ii) the CCN applications, (iii) the engineering, design, and construction of the facilities, (iv) LP&L's payment obligations to Sharyland for their services for the construction of the LP&L's transmission assets, and the LP&L integration to ERCOT, (v) the coordination necessary to ensure successful completion of the LP&L integration, and (vi) the subsequent transfer of LP&L's transmission assets and, to the extent applicable, the LP&L CCN rights from Sharyland to LP&L.

Transmission Cost of Service Revenues: LP&L intends to file a TCOS rate filing with the PUC in 2020 in order to earn a rate of return on its transmission assets. These revenues (to be collected from all load serving entities in ERCOT) are anticipated to approximate at least 1.5x the annual debt service on obligations issued to finance transmission assets that are constructed in or transferred into ERCOT. This new revenue stream will commence upon LP&L's entry to ERCOT. The TCOS revenues are anticipated to begin in FY 2020-21 and increase to approximately $44.8 million annually by FY 2023-24.

Hold Harmless Payments: PUC Docket No. 47576 requires that upon integration to ERCOT on June 1, 2021, LP&L will make a one-time payment totaling $24.0 million to SPS to indemnify SPS and its customers for LP&L's integration into ERCOT. LP&L will utilize the energy and capacity savings afforded by the SPS Power Agreement and SPS Capacity Agreement and reserve up to $24.0 million of the savings prior to June 1, 2021.

In addition to the SPS Hold Harmless Payment, the PUC ordered LP&L to pay $22 million each year for the first five years upon integration into the ERCOT market. The funds will be credited to ERCOT wholesale transmission customers to mitigate integration costs. This amount will be netted against the TCOS revenues received from ERCOT.

Opt-In to Retail Competition: In January 2018, the Lubbock City Council announced its intent to study the feasibility of opting in to retail customer choice for the Affected Load. Pending the results of the opt-in study, LP&L could opt-in to the ERCOT competitive retail market as early as June 1, 2021. A contract to perform the opt-in study was awarded to Navigant Consulting, Inc. in August 2018. It is expected that the Opt-In Study will take approximately nine months to complete.

Portion of LP&L's Load Remains in SPP: Approximately 170 MW of LP&L load (Unaffected Load) is expected to remain in SPP after the Affected Load transfer has been effectuated. This Unaffected Load is expected to be served by the SPS Partial Requirements agreement, and the Elk City Wind PPA. LP&L intends to honor the terms of the SPS Partial Requirements agreement by receiving power and energy from SPS on the distribution system connected to SPS' transmission system. This

Unaffected Load is expected to remain in SPP during the term of the agreement and is not included in the load that will be interconnected to ERCOT.

The acquisition of SPS' distribution system in 2010 included 19 delivery points that are served off SPS' transmission system. LP&L acquired only distribution assets and SPS retained ownership of its transmission system. The acquired system will remain in SPP and will be electrically isolated from LP&L's transmission and distribution system that will move to ERCOT.

Elk City II Wind, LLC Agreement – WTMPA has a power purchase agreement (PPA) with Elk City II Wind, LLC for the purchase of energy from the 100.8 MW aggregate nameplate wind generation facility located in Roger Mills and Beckham Counties, Oklahoma (Elk City Wind PPA). The initial term of this agreement was June 1, 2019 through May 31, 2032. In April 2018, WTMPA agreed to an Amendment of the Elk City Wind PPA that provides for the following: (i) resolves a disagreement with respect to payment of SPP Attachment Z2 Directly Assigned Upgrade Charges; (ii) allows the owner to repower the wind generation facility to a capacity rating of no more than 107 MW; (iii) modifies the contract price for energy; (iv) updates contract language to conform to current statutory language; and (v) amends other contract language to provide WTMPA with certain benefits in terms of energy settlement. WTMPA expects that the member cities will be in an improved financial position by virtue of the amendment.

Customer Service Information Systems – LP&L manages and operates the customer service department (City of Lubbock Utilities) for the utility in addition to performing customer service and billing services for the other city-owned utilities, including water, wastewater, storm water and solid waste. The City of Lubbock Utilities is included in LP&L's budget with 48.38% of all costs reimbursed from the other city-owned utilities. The City of Lubbock Utilities currently utilizes an aged computer information system (CIS) for its billing and customer service platform. The current system is outdated, inflexible, and does not allow for new or innovative rate structures without expensive custom coding and time-consuming workarounds. In FY 2016, a capital project was created to replace the CIS system. In the process of studying the potential CIS upgrades, it became clear that more than just a CIS system was needed if the utilities were going to offer the types of services and benefits that customer's demand in an increasingly digital world. At that time, the process began to define the scope of the utilities' needs, to write the request for proposal (CIS RFP), to evaluate the CIS RFP responses and ensure a smooth implementation process.

The City of Lubbock Utilities has determined that in addition to the CIS upgrade, the following items are needed to provide the type of information and customer service that customers demand:

- Advanced Metering Infrastructure (AMI) – an integrated system of meters and communications networks that involves the ability to record consumption of electric energy in intervals of an hour or less and communicates that information at least daily to the utility for monitoring and billing
- Meter Data Management (MDM) – long-term data storage and management for large quantities of data delivered by AMI – the data consists primarily of interval data and meter events

- Mobile Workforce Management (MWFM) – a category of software and related services used to manage employees working outside the company premises; the term is often used in reference to field teams

Requirements gathering for the CIS/MDM and AMI systems, project planning, and scope were finalized in FY 2017. This process considered meter specification, meter functionality, procurement, and meter deployment logistics including the receipt of materials, meter testing, inventory management, storage, mobilization, deployment, installation and tracking.

In FY 2018, Itron was selected as the AMI vendor to install and utilize its OpenWay Riva metering technology to meet the needs of the City's future electric and water utilities. Additionally, Oracle was selected as the CIS/MDM vendor to utilize its Customer Cloud Solution, C2M, to upgrade the City's utility billing system.

Itron has installed the AMI communication network, has installed a blend of electric and water meters for the initial installation phase, and is preparing for the full deployment of meters that is expected to begin in March 2019 and be complete by first quarter 2020. In FY 2019, the meter installation will be complete and the primary focus will shift to the CIS/MDM project and overall change management. The CIS/MDM will go live in FY 2020.

Texas Tech University System (TTUS) – LP&L was involved in a contract dispute with TTUS from 2014 to 2018. TTUS claimed that it had overpaid for electric service under the terms of the existing TTUS PPA totaling $4 million, plus interest. The TTUS PPA provided for an annual refund to TTUS in the event it was billed for service at a greater rate than LP&L's large commercial customers, as defined in the TTUS PPA. The language in the TTUS PPA was ambiguous as to the customer class in which TTUS should be compared against in the calculation of the refund. There was contractual language in the TTUS PPA to support both the TTUS and LP&L positions in the dispute. TTUS never filed a lawsuit for claimed damages.

In March 2018, LP&L and TTUS approved a first amendment to the TTUS PPA (Amended PPA) to provide certainty in the refund metric calculations, certainty as to the existing real property rights, the grant of additional property rights related to a new substation and transmission/distribution infrastructure and the refund due, totaling just over $2.8 million. The Amended PPA recognized that the contract energy price incorporates the statutory twenty percent (20%) discount provided by Section 36.351 of the Texas Utility Code (Statutory Discount). If the Amended PPA terminated, TTUS would become a tariff customer of LP&L, and would be entitled to the Statutory Discount.

The Amended PPA was expected to expire on June 30, 2019, if either TTUS, the City or LP&L provided notice of termination to the other on or before December 30, 2018. However, in lieu of terminating the Amended PPA, all parties approved a second amendment to the PPA (Second Amended PPA) in December 2018. The Second Amended PPA provided for (i) a decreased energy price of 1.215 cents per kilowatt-hour (kWh) (from 1.4 cents per kWh) in recognition of the Statutory Discount, and (ii) the possibility to extend the term by twelve successive thirty-day renewal periods. The extensions were included in the event that unexpected delays occur with LP&L's interconnection to ERCOT by May 31, 2021.

Base Rate Adjustment – Rates are set by the Board and approved by the Lubbock City Council. On September 13, 2018, the City Council approved a tariff to become effective on October 1, 2018 that did not include a base rate increase. The long-term financial model does not anticipate a base rate adjustment for the near future.

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 2019 as reported by the EIA are as follows:

- Natural Gas Prices – The EIA expects the NYMEX natural gas spot price to average $2.98 per MMBtu in calendar year 2019, compared with $3.12 per MMBtu in calendar year 2018, due to strong growth in U.S. natural gas production.
    - Although NYMEX prices are projected to slightly decrease in 2019, natural gas prices in West Texas as measured by the Waha index are expected to remain disconnected from the NYMEX through late 2019 and into early 2020. The disconnect is related to the limited export capacity for natural gas coming out of the Permian Basin as mentioned in the above in the *Financial Highlights: Purchased Power Pass-Through Rate Stability*.
    - Kinder Morgan is in the process of constructing two large export pipelines that will help relieve export capacity from the Permian Basin. The first large export pipeline is the Gulf Coast Express Pipeline that would move natural gas from the Permian Basin to just west of Corpus Christi in Agua Dulce and is expected to be complete in the fall of 2019. The second large export project is the Permian Highway Project that will move natural gas from the Permian Basin to Katy, Texas and is slated for completion by the end of 2020.
    - Natural gas is a by-product of crude oil production and the excess supply of natural gas could slow dramatically should the price of crude oil drop. According to the St. Louis branch of the Federal Reserve, West Texas Intermediate (WTI) crude oil prices experienced a three-year high in June 2018 of $77.41/barrel, but has since seen prices drop to below $50/barrel in late 2018.
    - It remains to be seen how oil prices will affect the excess supply of natural gas in the Permian Basin, but management will continue to monitor any new developments and will continue to budget for fuel conservatively as it relates to setting rates for purchased power recovery.
- Coal Prices –The EIA expects coal production to decrease 4% between 2018 and 2019 and expects the delivered coal price to average $2.10/MMBtu in 2019, compared to $2.08/MMBtu in 2018.
- Electricity Generation – The EIA expects the share of U.S. total utility-scale electricity generation from natural gas-fired power plants to rise from 35% in 2018 to 36% in 2019 and electricity generation from coal to decrease from 28% in 2018 to 26% in 2019.
- Electricity Retail Prices – The expected shift in the national generation portfolio from coal to natural gas in 2019 is the primary factor for a projected rise in the price of electricity. The EIA

expects electricity prices to average 13.3 cents per kWh for calendar year 2019, which is a 3.0 percent increase over 2018.

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

Table 15 - SPP Generation Portfolio

	2018	2017	2016
Natural Gas	23.5%	19.5%	23.1%
Coal	42.2%	46.3%	48.4%
Wind	23.6%	22.7%	17.5%
Hydro	4.9%	4.2%	3.6%
Dual Fuel	0.0%	0.0%	0.0%
Nuclear	5.4%	6.8%	7.0%
Fuel Oil	0.1%	0.2%	0.2%
Other	0.3%	0.4%	0.2%
	100.0%	**100.0%**	**100.0%**

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 will 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 that enforce 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, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,644,488	$ 4,148,731
Investments	83,796,278	62,895,552
Accounts receivable, net	30,471,794	33,937,654
Interest receivable	71,840	40,478
Prepaid expenses	25,000	25,000
Inventories	1,984,063	1,870,195
Total current assets	119,993,463	102,917,610
Noncurrent assets:		
Restricted investments	135,717,814	46,994,423
Prepaid expenses	1,477,776	1,611,109
	137,195,590	48,605,532
Capital assets:		
Construction in progress	24,601,082	7,849,483
Production Plant	89,585,873	89,453,296
Transmission Plant	44,062,603	45,005,758
Distribution Plant	294,261,957	286,788,226
Regional Trans Market Oper Plant	1,383,386	1,193,702
General Plant	33,231,333	31,831,640
Less accumulated depreciation	(254,140,607)	(241,006,745)
Total capital assets	232,985,627	221,115,360
Total noncurrent assets	370,181,217	269,720,892
Total assets	$ 490,174,680	$ 372,638,502
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	$ 1,003,318	$ 1,234,719
Deferred outflow Goodwill	531,114	796,812
Deferred outflows from Pensions	2,488,886	6,929,607
Deferred outflows from OPEB	1,241,657	-
Total deferred outflows of resources	$ 5,264,975	$ 8,961,138

See accompanying Notes to Basic Financial Statements

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Net Position
September 30, 2018 and 2017

	2018	2017
LIABILITIES		
Current liabilities:		
Accounts payable, net	$ 18,962,113	$ 1,531,608
Accrued liabilities	3,622,312	6,162,295
Accrued interest payable	2,471,041	1,514,556
Due to related party	11,486,904	14,822,879
Customer deposits	4,552,464	4,663,363
Compensated absences	2,179,036	1,954,638
Bonds payable	18,555,000	15,912,078
Total current liabilities	61,828,870	46,561,417
Noncurrent liabilities:		
Compensated absences	629,202	879,422
Post employment benefits	19,348,418	9,373,761
Net pension liability	15,554,807	23,015,914
Bonds payable	198,588,661	112,570,647
Total noncurrent liabilities	234,121,088	145,839,744
Total liabilities	$ 295,949,958	$ 192,401,161
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions	$ 3,456,159	$ 605,547
Total deferred inflows of resources	$ 3,456,159	$ 605,547
NET POSITION		
Net investment in capital assets	128,869,898	129,981,725
Restricted for:		
Debt service	20,372,130	10,354,109
Unrestricted	46,791,510	48,257,098
Total net position	$ 196,033,538	$ 188,592,932

See accompanying Notes to Basic Financial Statements

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Revenues, Expenses, and Changes in Net Position
September 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Charges for services	$ 239,178,553	$ 243,928,151
OPERATING EXPENSES		
Personal services	19,606,822	20,179,531
Supplies	1,014,137	1,104,042
Maintenance	2,399,163	2,434,484
Purchase of fuel and power	154,924,035	162,336,407
Other services and charges	10,321,429	9,145,848
Depreciation and amortization	17,608,182	17,293,626
Total operating expenses	205,873,768	212,493,938
Operating income	33,304,785	31,434,213
NON-OPERATING REVENUES (EXPENSES)		
Interest income	1,710,341	625,337
Disposition of assets	43,941	(479,717)
Miscellaneous	827,644	(1,053,043)
IRS Build America Bond subsidy	7,011	9,988
Interest expense on bonds	(4,172,052)	(2,713,899)
Total non-operating revenues (expenses)	(1,583,115)	(3,611,334)
Income before contributions and transfers	31,721,670	27,822,879
Capital contributions	300,281	28,879
Transfers, net	(17,041,225)	(15,886,361)
Change in net position	14,980,726	11,965,397
Net position - beginning	188,592,932	176,627,535
Change in accounting principle	(7,540,120)	-
Net position - beginning, as restated	181,052,812	176,627,535
Net position - ending	$ 196,033,538	$ 188,592,932

See accompanying Notes to Basic Financial Statements

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Cash Flows
September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 242,644,414	$ 241,349,332
Payments to suppliers	(156,862,815)	(173,929,693)
Payments to employees	(19,606,821)	(18,144,810)
Other receipts (payments)	1,764,800	(1,043,055)
Net cash provided by operating activities	67,939,578	48,231,774
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	1,306,808	93,243
Transfers out to other funds	(18,348,033)	(15,979,604)
Net cash used by noncapital and related financing activities	(17,041,225)	(15,886,361)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(29,380,699)	(16,375,757)
Sale of capital assets	246,471	129,336
Principal paid on bonds	(15,917,078)	(15,302,476)
Issuance of bonds	106,807,292	19,867,695
Bond issuance costs	(20,055)	9,606
Interest paid on bonds and capital leases	(5,193,389)	(5,035,720)
Capital grants and contributions	-	28,879
Net cash used for capital and related financing activities	56,542,542	(16,678,437)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(109,624,117)	(20,976,232)
Interest earnings on cash and investments	1,678,979	612,999
Net cash used by investing activities	(107,945,138)	(20,363,233)
Net increase (decrease) in cash and cash equivalents	(504,243)	(4,696,257)
Cash and cash equivalents - beginning of year	4,148,731	8,844,988
Cash and cash equivalents - end of year	3,644,488	4,148,731
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	33,304,785	31,434,213
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	17,608,182	17,293,626
Other income (expense)	1,764,800	(1,043,055)
Change in current assets and liabilities:		
Accounts receivable	(1,315,901)	(3,808,523)
Deferred Expenses, PPRF	4,781,762	1,229,705
Inventory	(113,868)	(295,416)
Accounts payable	17,430,505	(445,150)
Due to related party	(3,335,975)	413,781
Accrued liabilities	(2,539,983)	1,791,692
Customer deposits	(110,899)	(433,486)
Compensated absences and retirement benefits	466,170	2,094,387
Net cash provided by operating activities	67,939,578	48,231,774

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 101 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.

At the present time, LP&L's product is the generation, distribution, and service of electricity. The market in which it operates is located within the confines of its certificated areas as established by the Texas Public Utility Commission (PUC). The PUC regulates certain utility rates, operations, and services within the State, however, LP&L is not considered a public utility and is therefore not subject to the jurisdiction of the PUC, except for its certificated areas of operation and certain reporting requirements under the Texas Public Utility Regulatory Act. LP&L is authorized to charge and collect reasonable rates necessary to produce revenues sufficient to pay operational and maintenance expenses, debt service requirements, and other contractual commitments.

LP&L is 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. WTMPA is shown as a blended component unit in the City's CAFR. Until June 1, 2019, WTMPA has contracted with Southwestern Public Service Company (SPS), on behalf of the Cities, for total-requirements service (SPS Power Agreement). The SPS Power Agreement provides that SPS serve the entire capacity and energy requirements of WTMPA members. The term of the 15-year agreement is through the hour ending at midnight on May 31, 2019.

LP&L is currently in the process of filing Certificates of Convenience and Necessity (CCN) at the PUC in an effort to identify the transmission line specifications and segment locations in order to connect the LP&L system to the ERCOT power grid by June 1, 2021. An overview of the integration is included at the beginning of this report in the Currently Known Facts section of the MD&A. The ERCOT integration will have a substantial impact on the asset structure and the Statement of Revenues, Expenses, and Changes in Net Position in future fiscal years. Capital projects currently included in LP&L's existing long-term capital improvement plan are largely related to reliability and will cover a portion of system improvements necessary prior to the final integration to ERCOT.

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.

<u>Equity in Cash and Investments</u>
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 the TexSTAR, LOGIC, and Texas CLASS state pools are stated at net asset value. Money market mutual funds (MMMFs) and the TexPool state pool are stated at amortized cost.

<u>Cash Equivalents</u>
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 presents an insignificant risk of changes in value because of changes in interest rates.

<u>Investments</u>
Investments include State Investment Pools and securities in the Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Farm Credit Bank (FFCB), Federal Agricultural Mortgage Corporation (FAMCA), Municipal Bonds, Commercial Paper, Certificates of Deposit, and MMMFs. 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.

<u>Accounts Receivable</u>
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 $2,785,403, 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.

LP&L utilizes the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts to classify fixed assets. 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
Regional Transmission and Market Operation Plant	5 years	General Plant	2-45 years

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.

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 $561,723, net of interest earned during FY 2018, and $139,915 net of interest earned during FY 2017.

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.

GASB Pronouncements Effective in FY 2018

GASB Statement No. 75 ("GASB 75"), Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, requires governmental entities to report a liability related to "other post-employment benefit plans" on the face of the financial statements and requires extensive note disclosures and required supplementary information. Restatement of the 2017 financial statements is not practical because prior year information calculated under the provisions of GASB is not available. See Note 9 for further detail.

GASB Statement No. 85 ("GASB 85"), "Omnibus 2017", addresses practice issues that have arisen during implementation of other GASB standards. Implementation of GASB 85 required LP&L to reclassify its goodwill from a previous acquisition to a deferred outflow of resources.

GASB Statement No. 86 ("GASB 86"), "Certain Debt Extinguishment Issues", eliminates an inconsistency in the literature related to in-substance defeasance of debt. Under previous guidance, debt could only be considered defeased if there was a refunding. GASB 86 now allows defeasance treatment even if the government uses existing assets and does not issue new debt. Implementation of GASB 86 had no impact on the financial statements.

Implementation of New Pronouncement/Restatement of Net Position

In FY 2018 LP&L implemented GASB Statement No. 75 which established standards for measuring and recognizing OPEB liabilities, deferred outflows of resources, deferred inflows or resources, and expenditures/expenses. The effects of implementing this statement had a material effect on net position. LP&L recognized the total OPEB liability on the statement of net position. The total OPEB liability was $19.3 million as of September 30, 2018. LP&L also recognized a new measure of the OPEB expense in the amount of $1.8 million, which was different from the actuarially determined contributions (annual required contributions). Note disclosures and required supplementary information are now based on the new standard.

The statement also required that LP&L record a beginning deferred outflow of resources for contributions made between the measurement date of December 31, 2016 and our fiscal year-end of September 30, 2017. As a result of the implementation of GASB Statement No. 75, LP&L recorded a prior period adjustment to beginning net position of $7,540,120. In addition, LP&L was required to eliminate the net OPEB obligation that was previously reported.

<u>GASB Pronouncements Effective in FY 2017</u>
GASB Statement No. 74 ("GASB 74"), Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits, as well as for certain nonemployer governments that have a legal obligation to provide financial support for other postemployment benefits provided to the employees of other entities. Implementation of GASB 74 had no impact on the financial statements.

GASB Statement No. 78 ("GASB 78"), Pensions Provided through Certain Multiple-Employer Defined Benefit Plans. GASB 78 addresses practice issues regarding the scope and applicability of GASB 68. Implementation of GASB 78 had no impact on the financial statements.

GASB Statement No. 77 ("GASB 77"), Tax Abatement Disclosures, requires disclosure by state and local governments of their own tax abatement agreements and those that are entered into by other governments that reduce the reporting government's tax revenues. GASB 77 is intended to assist users of financial statements in assessing a government's financial condition and the limitations on a government's ability to raise resources. Implementation of GASB 77 had no impact on the financial statements.

GASB Statement No. 81 ("GASB 81"), Irrevocable Split-Interest Agreements. GASB 81 improves financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Implementation of GASB 81 had no impact on the financial statements.

<u>GASB Pronouncements Issued but not Yet Effective</u>
In November 2016, GASB issued Statement No. 83 ("GASB 83"), Certain Asset Retirement Obligations (ARO). GASB 83 establishes uniform criteria for governments to recognize and measure certain asset retirement obligations, defined as a legally enforceable liability associated with the retirement of a tangible capital asset. An ARO is recognized when the liability is incurred, which is manifested by the occurrence of both an external obligating event (such as a legally binding contract or a court judgment) and an internal obligating event (such as placing a tangible capital asset into service). A government also recognizes a deferred outflow of resources when it recognizes an ARO liability. The ARO is measured at the best estimate of the current value of outlays expected to be incurred. Additional note disclosures are required. GASB 83 is effective for the fiscal period ending September 30, 2019. LP&L has not determined the impact of this statement.

In January 2017, GASB issued Statement No. 84 ("GASB 84"), Fiduciary Activities. GASB 84 establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. GASB 84 is effective for the fiscal period ending September 30, 2020, however implementation will have no impact on LP&L.

In June 2017, GASB issued Statement No. 87 ("GASB 87"), Leases. GASB 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 86 is effective for the fiscal period ending September 30, 2021. LP&L has not determined the impact of this statement.

In June 2018, GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements ("GASB 88"). GASB 88 specifies disclosures that should be made in the financial statements related to debt. It also provides a definition of debt so that governments know which types of liabilities should be included in those disclosures. If a government has direct borrowings or direct placements, disclosures related to these should be provided separately from disclosures related to other types of debt. The implementation will have no impact on LP&L.

In December 2019, GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period ("GASB 89"). GASB 89 requires that interest costs incurred before the end of a construction period be recognized as expenses in the period in which the costs are incurred. As a result, the interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Earlier application is encouraged. GASB 89 will be applied prospectively to interest incurred after the date of adoption. Continued review is necessary to determine the impact of this statement on LP&L.

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 debt refunding. 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 has deferred outflows for pensions related to contributions, changes in actuarial assumptions and investment experience and for OPEB related to benefit payments and changes in actuarial assumptions. For FY 2017 and FY 2018, LP&L has reclassified goodwill from noncurrent assets to deferred outflows of resources due to GASB Statement No. 85, *Omnibus 2017*, which required goodwill from acquisitions under GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, to be reported as deferred outflow.

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.* For additional information on deferred outflows/inflows related to pensions, reference "Note 8: Retirement Plan".

NOTE 2: DEPOSITS AND INVESTMENTS

On September 30, 2018, the bank balance of LP&L's deposits was $4,273,268. All of the bank balances are covered by federal depository insurance or are fully collateralized.

Custodial Credit Risk – Bank Deposits
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, 2018, City bank balances were not exposed to custodial credit risk as follows:

Insured	$ 83,350
Uninsured and collateral held by a third party financial institution in the City's name	4,189,918
Total	$ 4,273,268

Custodial Credit Risk - Securities
Securities with FNMA, FAMCA, FFCB, FHLMC, FHLB and municipal bonds 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.

At September 30, 2018 and 2017, LP&L had the following investments and maturities:

	30-Sep-18			30-Sep-17		
		Maturities in Years			Maturities in Years	
Type	**Fair Value**	**Less Than 1**	**1-5**	**Fair Value**	**Less Than 1**	**1-5**
Federal Farm Credit Bank (FFCB)	$ 5,694,258	$ 1,499,754	$ 4,194,504	$ 2,809,952	$ 868,042	$ 1,941,910
Farmer Mac (FAMCA)	1,119,521	-	1,119,521	217,052	-	217,052
Federal Home Loan Banks (FHLB)	7,371,069	2,242,546	5,128,523	5,192,069	2,601,270	2,590,799
Federal Home Loan Mortgage Corporation (FHLMC)	4,225,276	747,634	3,477,642	4,008,380	2,820,795	1,187,585
Federal National Mortgage Association (FNMA)	4,131,669	-	4,131,669	3,446,183	1,734,487	1,711,696
Municipal Bonds	24,181,183	5,515,919	18,665,264	9,380,430	1,320,952	8,059,478
Certificates of deposit	-	-	-	134,448	-	134,448
Commercial Paper	752,115	752,115	-	-	-	-
Money market mutual funds	1,710,527	1,710,527	-	25,900	25,900	-
State Investment Pools *	170,328,474	170,328,474	-	84,675,561	84,675,561	-
Total	$ 219,514,092	$ 182,796,969	$ 36,717,123	$ 109,889,975	$ 94,047,007	$ 15,842,968

* 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 TexPool 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. The pool offers same day access to its funds.

TexSTAR's governing body is a five-member board of directors (the Board). Three directors are officers or employees of Participants; one director is an officer or employee of First Southwest Company, LLC; and the final director is an officer or employee of an affiliate of J.P. Morgan Investment Management (JPMIM) Inc. TexSTAR's bylaws also require the Board to appoint an advisory board.

The TexSTAR Advisory Board currently consists of six members, each of whom is either (i) a representative of a Participant or (ii) a person who has no business relationship with the Board, but who is qualified to advise the Board. The TexSTAR 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. TexSTAR is rated AAAm by Standard & Poor's. 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 (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, 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. LOGIC is rated AAAm by Standard & Poor's. 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. Texas CLASS is rated AAAm by Standard and Poor's. 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.

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 MMMFs regulated by the Securities and Exchange Commission and AAA-rated constant-dollar LGIPs authorized by the City Council. On September 30, 2018, 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.

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, 2018, LP&L's investments constituted the following percentages of total investments: State Investment Pools – 77.6%, Municipal Bonds – 11.0%, FHLB – 3.4%, FFCB – 2.6%, FHLMC – 1.9%, FNMA – 1.9%, MMMFs – 0.8%, FAMCA - 0.5%, and Commercial Paper – 0.3%.

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

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, 2018:

	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, 2018				
Investments by fair value level				
Federal Farm Credit Bank (FFCB)	$ 5,694,258	$ -	$ 5,694,258	$ -
Farmers Mac (FAMCA)	1,119,521	-	1,119,521	-
Federal Home Loan Bank (FHLB)	7,371,069	-	7,371,069	-
Federal Home Loan Mortgage Corporation (FHLMC)	4,225,276	-	4,225,276	-
Federal National Mortgage Association (FNMA)	4,131,669	-	4,131,669	-
Municipal Bonds	24,181,183	-	24,181,183	-
Commercial Paper	752,115	752,115	-	
Total investments by fair value level	$ 47,475,091	$ 752,115	$ 46,722,976	$ -
Investments measured at the net asset value				
TexStar	$ 91,752,301			
LOGIC	6,255,673			
Texas Class	65,413,723			
Total investments measured at the NAV	$ 163,421,697			
Investments measured at amortized cost				
TexPool	$ 6,906,777			
Money Markets	1,710,527			
Total investments at amortized cost	$ 8,617,304			
Total Investments	$ 219,514,092			

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, 2017:

	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, 2017				
Investments by fair value level				
Federal Farm Credit Bank (FFCB)	$ 2,809,952	$ -	$ 2,809,952	$ -
Farmers Mac (FAMCA)	217,052	-	217,052	-
Federal Home Loan Bank (FHLB)	5,192,069	-	5,192,069	-
Federal Home Loan Mortgage Corporation (FHLMC)	4,008,380	-	4,008,380	-
Federal National Mortgage Association (FNMA)	3,446,183	-	3,446,183	-
Municipal Bonds	9,380,430	-	9,380,430	-
Total investments by fair value level	$ 25,054,066	$ -	$ 25,054,066	$ -
Investments measured at the net asset value				
TexStar	$ 30,444,789			
LOGIC	27,954,560			
Texas Class	24,675,161			
Total investments measured at the NAV	$ 83,074,510			
Investments measured at amortized cost				
TexPool	$ 1,601,051			
Money Markets	25,900			
Non-negotiable certificate of Deposit	134,448			
Total investments at amortized cost	$ 1,761,399			
Total Investments	$ 109,889,975			

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 $11,486,904 and $14,822,879 at September 30, 2018 and 2017, respectively. This outstanding balance will be repaid within one month.

At September 30, 2018 and 2017, LP&L had no internal financing.

Net transfers out totaling $17,041,225 for FY 2018 from LP&L to other City funds were the result of (i) General Fund indirect cost allocations, totaling $1,135,647; (ii) payments to WTMPA for management and administration, totaling $1,461,701; (iii) City franchise fee equivalents totaling $11,060,010; (iv) Payment in lieu of taxes totaling $2,212,002; (v) a payment to the City's Debt Service Fund to fund LP&L's portion of the Citizen's Tower debt service totaling $2,478,673 million; offset by a transfer in from the City's Water, Wastewater, Storm Water, and Solid Waste funds totaling $1,306,808.

Net transfers out totaling $15,886,361 for FY 2017 from LP&L to other City funds were the result of 1) General Fund indirect cost allocations, totaling $1,066,407; 2) payments to WTMPA for management and administration, totaling $1,400,873; 3) City franchise fee equivalents totaling $11,260,270; 4) Payment in lieu of taxes totaling $2,252,054; offset by a transfer in from the City's Water Fund totaling $93,243.

NOTE 4: INVENTORY

The inventory at September 30, 2018 and 2017 was $1,984,063 and $1,870,195, 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 $1,477,776 in 2018 and $1,611,109 in 2017, 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 deferred outflow for goodwill totals $531,114 in FY 2018 and represents the unamortized excess purchase price over the estimated value of capital assets related to the purchase of Southwestern Public Services Company (SPS) in 2011. The goodwill is being amortized over a 10-year period.

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	$ 7,849,483	$ 29,084,259	$ 12,332,660	$ 24,601,082
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	35,046	-	-	35,046
Electric Distribution Plant	16,394,512	261,233	-	16,655,745
Electric General Plant	302,521	-	-	302,521
Total Capital Assets, Not Depreciated	24,656,972	29,345,492	12,332,660	41,669,804
Capital Assets, Depreciated:				
Electric Production Plant	89,377,886	345,673	213,096	89,510,463
Electric Transmission Plant	44,970,712	41,715	984,870	44,027,557
Electric Distribution Plant	270,393,714	9,884,376	2,671,878	277,606,212
Electric Regional Trans Mkt Oper Plant	1,193,702	189,684	-	1,383,386
Electric General Plant	31,529,119	2,129,667	729,974	32,928,812
Total Capital Assets, Depreciated	437,465,133	12,591,115	4,599,818	445,456,430
Less Accumulated Depreciation:				
Electric Production Plant	55,586,540	3,515,128	172,651	58,929,017
Electric Transmission Plant	16,434,969	610,455	984,870	16,060,554
Electric Distribution Plant	149,436,329	10,870,823	2,657,941	157,649,211
Electric Regional Trans Mkt Oper Plant	158,092	248,130	-	406,222
Electric General Plant	19,390,815	2,006,270	301,482	21,095,603
Total Accumulated Depreciation:	241,006,745	17,250,806	4,116,944	254,140,607
Total Capital Assets Depreciated, Net	196,458,388	(4,659,691)	482,874	191,315,823
Capital Assets, Net	$ 221,115,360	$ 24,685,801	$ 12,815,534	$ 232,985,627

Capital asset activity for the year ended September 30, 2017:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	$ 5,159,705	$ 16,110,338	$ 13,420,560	$ 7,849,483
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	35,046	-	-	35,046
Electric Distribution Plant	16,365,633	28,879	-	16,394,512
Electric General Plant	302,521	-	-	302,521
Total Capital Assets, Not Depreciated	21,938,315	16,139,217	13,420,560	24,656,972
Capital Assets, Depreciated:				
Electric Production Plant	97,196,381	1,145,347	8,963,842	89,377,886
Electric Transmission Plant	44,666,782	389,762	85,832	44,970,712
Electric Distribution Plant	262,503,954	9,104,064	1,214,304	270,393,714
Electric Regional Trans Mkt Oper Plant	154,818	1,038,884	-	1,193,702
Electric General Plant	29,609,922	2,375,976	456,779	31,529,119
Total Capital Assets, Depreciated	434,131,857	14,054,033	10,720,757	437,465,133
Less Accumulated Depreciation:				
Electric Production Plant	60,465,257	3,567,062	8,445,779	55,586,540
Electric Transmission Plant	15,918,486	602,315	85,832	16,434,969
Electric Distribution Plant	139,981,604	10,662,508	1,207,783	149,436,329
Electric Regional Trans Mkt Oper Plant	23,270	134,822	-	158,092
Electric General Plant	17,438,305	2,051,874	99,364	19,390,815
Total Accumulated Depreciation:	233,826,922	17,018,581	9,838,758	241,006,745
Total Capital Assets Depreciated, Net	200,304,935	(2,964,548)	881,999	196,458,388
Capital Assets, Net	$ 222,243,250	$ 13,174,669	$ 14,302,559	$ 221,115,360

Construction Commitments

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

Construction Commitments at September 30, 2018 were as follows:

Original Commitments	Spent-to-Date	Remaining Commitments
$ 159,442,964	$ 36,941,628	$ 122,501,336

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, 2018 and 2017, and the pension expense for the years then ended are as follows:

	TMRS 2018	TMRS 2017
Net pension liability:	$ 15,554,807	$ 23,015,914
Deferred outflows of resources:	2,488,886	6,929,607
Deferred inflows of resources:	3,456,159	605,547
Pension expense:	3,221,311	4,615,288

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 883 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 2018 and 2017 measurement periods, the allocation percentages were 18.84% and 18.61%, respectively. TMRS issues a publicly available 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.

The adopted plan provisions for plan years 2017 and 2016 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 18.05% and 17.95% in calendar years 2018 and 2017, respectively. LP&L's contributions to TMRS for the years ended September 30, 2018 and 2017, were $3,351,716 and $3,187,375, respectively, and were equal to the required contributions.

Net Pension Liability

LP&L's net pension liability (NPL) was measured as of December 31, 2017 and 2016, 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, 2017 and 2016 actuarial valuations was determined using the following actuarial assumptions:

2017:	
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

2016:	
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

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 Blue Collar Adjustment, 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, 2017 and December 31, 2016 valuations 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 2017 or 2016 valuations.

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 (i) arithmetic mean (aggressive) without an adjustment for time (conservative) and (ii) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was 6.75% for both the December 2017 and 2016 actuarial valuations. 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 plan members. 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 9/30/2017	$ 124,151,664	$ 101,135,750	$ 23,015,914
Changes for the year:			
Service cost	3,094,041	-	3,094,041
Interest	8,538,646	-	8,538,646
Change of benefit terms	-	-	-
Difference between expected and actual experience	(133,708)	-	(133,708)
Contributions – employer	-	3,276,308	(3,276,308)
Contributions – employee	-	1,277,854	(1,277,854)
Net investment income	-	14,484,811	(14,484,811)
Benefit payments, including refunds of employee contributions	(6,658,022)	(6,658,022)	-
Administrative expense	-	(75,081)	75,081
Other changes	-	(3,806)	3,806
Net changes	$ 4,840,957	$ 12,302,064	$ (7,461,107)
Balance at 9/30/18	**$ 128,992,621**	**$ 113,437,814**	**$ 15,554,807**

Changes in the Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balance at 9/30/2016	$ 119,083,215	$ 96,208,585	$ 22,874,630
Changes for the year:			
Service cost	2,944,598	-	2,944,598
Interest	8,107,660	-	8,107,660
Change of benefit terms	-	-	-
Difference between expected and actual experience	(21,609)	-	(21,609)
Contributions – employer	-	3,112,712	(3,112,712)
Contributions – employee	-	1,213,195	(1,213,195)
Net investment income	-	6,642,534	(6,642,534)
Benefit payments, including refunds of employee contributions	(5,962,200)	(5,962,200)	-
Administrative expense	-	(75,034)	75,034
Other changes	-	(4,042)	4,042
Net changes	$ 5,068,449	$ 4,927,165	$ 141,284
Balance at 9/30/17	**$ 124,151,664**	**$ 101,135,750**	**$ 23,015,914**

Sensitivity of the NPL to Changes in the Discount Rate

The following represents the NPL of LP&L at September 30, 2018, 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 Net Pension Liability	$ 32,796,052	$ 15,554,807	$ 1,381,661

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, 2018 and 2017, LP&L recognized pension expense of $3,211,311 and $4,615,288 respectively. At September 30, 2018 and 2017, LP&L reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Balance at September 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 65,295	$ -
Difference in expected and actual experience	-	382,532
Difference between projected and actual investment earnings	-	3,073,627
Contributions subsequent to the measurement date	2,423,591	-
Total	**$ 2,488,886**	**$ 3,456,159**

Balance at September 30, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 110,463	$ -
Difference in expected and actual experience	-	605,547
Difference between projected and actual investment earnings	4,500,334	-
Contributions subsequent to the measurement date	2,318,810	-
Total	**$ 6,929,607**	**$ 605,547**

At September 30, 2018, the amount totaling $2,423,591 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, 2019. 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:	
2018	$ (92,003)
2019	(170,411)
2020	(1,575,824)
2021	(1,552,625)
Total	**$ (3,390,863)**

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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. 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.

Benefits Provided

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 749 active participants who pay monthly premiums of $380/$23 (medical/dental) for single coverage and $868/$51 (medical/dental) for family coverage, pre-65.

Actuarial Methods and Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate	2.5% per annum
Actuarial cost method	Individual Entry Age
Discount rate	3.31%
Healthcare cost trend rate	Initial rate of 7.5% declining to an ultimate rate of 4.75% after 13 years
Salary increases	TMRS: 3.5% to 10.5%, including inflation

Demographic assumptions were based on the experience study covering the four year period ending December 31, 2014 as conducted for TMRS.

Mortality rates for TMRS: for healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on fully generational basis by scale BB to account for future mortality improvements.

Discount Rate

For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For purposes of the most recent OPEB valuation, the municipal bond rate is 3.31% (based on the daily rate closest to but no later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The discount rate was 3.81% as of the prior measurement date.

Change in the Total OPEB Liability

		Total OPEB Liability
Balance at September 30, 2017	**$**	**17,456,127**
Changes for the year:		
Service cost		946,297
Interest		669,193
Changes of assumptions		1,007,111
Benefit payments		(730,310)
Net changes	$	1,892,291
Balance at September 30, 2018	**$**	**19,348,418**

Sensitivity of the total OPEB Liability to Changes in the Discount Rate

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's Total OPEB Liability	$ 21,592,269	$ 19,348,418	$ 17,402,798

Sensitivity of the total OPEB Liability to Change in the Healthcare Cost Trend Rate

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate Assumption	1% Increase in Healthcare Cost Trend Rate
City's Total OPEB Liability	$ 17,608,585	$ 19,348,418	$ 21,436,193

OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018 the LP&L recognized total OPEB expense of $1,750,501.

At September 30, 2018, LP&L reported deferred outflows of resources and deferred inflows of resources related to OPEB for the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	$ -	$ -
Changes in assumptions	872,100	-
Contributions subsequent to the measurement date	369,557	-
Total	$ 1,241,657	$ -

Deferred outflows of resources (related to OPEB resulting from benefit payments subsequent to the measurement date), totaling $369,557, will be recognized as a reduction of the total OPEB liability as of September 30, 2019. Changes in assumptions within the OPEB deferred outflows and inflows of resources will be recognized in OPEB expense as follows:

Year ending September 30:	
2019	$ 135,011
2020	135,011
2021	135,011
2022	135,011
2023	135,011
Thereafter	197,045
Total	$ 872,100

NOTE 10: DEFERRED COMPENSATION

LP&L participates in the City's deferred compensation program and offers its employees five 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 9-30-18*	Balance Outstanding 9-30-17**
4.42	4/15/2008	8/15/2027	$ 6,498,295	$ -	$ 307,281
4.53	3/1/2009	8/15/2029	6,936,647	1,425,000	1,735,000
2.70	2/15/2010	2/15/1930	5,410,997	3,670,000	3,910,000
5.67	2/15/2010	2/15/1930	557,444	-	557,444
1.61	4/15/2013	4/15/2021	5,990,000	850,000	2,400,000
1.76	4/15/2013	4/15/2024	2,585,000	1,825,000	2,205,000
2.63	5/1/2014	4/15/2026	4,515,000	2,535,000	2,835,000
2.37	4/15/2015	4/15/2028	12,840,000	12,040,000	12,840,000
2.41	4/15/2016	2/15/2034	3,060,000	3,060,000	3,060,000
2.47	11/1/2016	2/15/2034	36,780,000	2,670,000	3,145,000
2.76	4/4/2018	2/15/2030	480,000	475,000	-
Total			$ 85,653,383	$ 28,550,000	$ 32,994,725

* Balance outstanding excludes $2,840,207 of net bond premiums and discounts.
** Balance outstanding excludes $3,386,771 of net bond premiums and discounts.

At September 30, 2018, 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.

Electric Revenue Bonds

Average Interest Rate	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-18*	Balance Outstanding 9-30-17**
2.45	10/15/2010	4/15/2020	$ 73,295,000	$ 16,970,000	$ 24,890,000
1.90	5/21/2013	4/15/2024	16,570,000	8,580,000	10,210,000
3.09	5/1/2014	4/15/2034	16,245,000	12,610,000	13,545,000
3.41	4/15/2015	4/15/2035	11,865,000	10,630,000	11,050,000
3.04	4/15/2016	4/15/2046	7,535,000	6,915,000	7,225,000
3.60	8/15/2017	2/15/2047	17,760,000	17,460,000	17,760,000
3.64	7/12/2018	4/15/2048	93,925,000	93,925,000	-
Total			$ 237,195,000	$ 167,090,000	$ 84,680,000

* Balance outstanding excludes $18,663,454 of net bond premiums and discounts.
** Balance outstanding excludes $7,421,228 of net bond premiums and discounts.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2018 and 2017

At September 30, 2018, 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
2018-19	$	3,015,000	$	1,258,538	$	15,540,000	$	5,588,951
2019-20		3,145,000		1,126,163		15,425,000		6,497,044
2020-21		3,285,000		983,199		7,045,000		5,766,744
2021-22		3,145,000		835,586		8,170,000		5,776,544
2022-23		3,275,000		684,086		8,545,000		5,736,919
2024-28		11,335,000		1,513,868		37,765,000		22,935,844
2029-33		1,350,000		48,060		21,165,000		15,591,944
2034-38		-		-		19,825,000		10,644,306
2039-43		-		-		15,335,000		6,695,756
2044-48		-		-		18,275,000		2,626,625
Total	$	28,550,000	$	6,449,500	$	167,090,000	$	87,860,677

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2018 and 2017 are as follows:

Fiscal Year 2018		Balance 9/30/2017		Additions		Deletions		Balance 9/30/2018		Due in one year
LP&L activities:										
General Obligation Bonds	$	32,994,726	$	480,000	$	4,924,726	$	28,550,000	$	3,015,000
Revenue Bonds		84,680,000		93,925,000		11,515,000		167,090,000		15,540,000
Bond Premiums		10,807,999		12,924,940		2,229,278		21,503,661		-
Compensated Absences		2,834,060		1,741,619		1,767,441		2,808,238		2,179,036
Other Postemployment Benefits *		17,456,127		2,622,601		730,310		19,348,418		-
Net Pension Obligation		23,015,914		11,711,574		19,172,681		15,554,807		-
Total LP&L activities	$	171,788,826	$	123,405,734	$	40,339,436	$	254,855,124	$	20,734,036

Fiscal Year 2017		Balance 9/30/2016		Additions		Deletions		Balance 9/30/2017		Due in one year
LP&L activities:										
General Obligation Bonds	$	37,812,202	$	3,230,000	$	8,047,476	$	32,994,726	$	4,397,078
Revenue Bonds		77,700,000		17,760,000		10,780,000		84,680,000		11,515,000
Bond Premiums		10,764,101		2,451,085		2,407,187		10,807,999		-
Compensated Absences		2,774,394		1,709,811		1,650,145		2,834,060		1,954,638
Other Postemployment Benefits *		8,738,911		634,850		-		9,373,761		-
Net Pension Obligation		22,874,630		11,131,335		10,990,051		23,015,914		-
Total LP&L activities	$	160,664,238	$	36,917,081	$	33,874,859	$	163,706,460	$	17,866,716

*Beginning balance incorporated adjustment of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) pronouncement.

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 August 2018, the City issued the par amount of $93,925,000 in Electric Light and Power System Revenue Bonds, Series 2018 (2018 Revenue Bonds), with interest rates ranging from 4.00% to 5.00%. At year end, the 2018 Revenue Bonds have an unamortized premium totaling $12,858,194. Bond proceeds totaling $106,783,194 will be used for the purpose of paying contractual obligations to be incurred for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for the electric system.

In April 2018, the City issued $96,160,000 General Obligation Refunding Bonds, Series 2018 (2018 Refunding Bonds), with interest rates ranging from 2.00% to 5.00%. LP&L's portion was $480,000 with a premium totaling $62,991 and a deferred loss totaling $18,927 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 2018 Refunding Bonds refunded $522,648 of outstanding debt associated with the Electric Light and Power System. As a result of the refunding, the City achieved a 4.01% savings on the refunded bonds.

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 Revenue Bonds from monies raised or to be raised from taxation.

In prior years, the City defeased bonds by placing the proceeds of the refunding bonds in an irrevocable trust account to provide for all future debt service payments on the refunded 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, 2018, the City had $104,665,000 of defeased bonds remain outstanding.

NOTE 12: RISK MANAGEMENT

The Risk Management Fund of the City accounts for liability and workers' 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 the Texas Municipal League Intergovernmental Risk Pool (TML-IRP) with continuous coverage through September

30, 2009. Effective on October 1, 2009 the City purchased workers' compensation coverage from Texas Political Subdivisions Joint Self-Insurance Fund (TPS). TPS operates as a self-insurance pool offering coverage to municipalities and other political subdivisions in accordance with the terms of inter-local agreements among members. The City obtains workers' compensation coverage through a guaranteed-cost plan. Guaranteed-cost members combine their contributions to cover pooled losses and expenses.

As required by an inter-local agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the agreement so that members will not have joint and several liabilities beyond their required contribution. Prior to April 1999 the City was self-insured for workers' compensation claims. Any claims outstanding prior to April 1999 continue to be the City's responsibility.

The City's self-insurance liability program is funded on a cash flow basis, which means that the servicing contractor processes, adjusts, and pays claims from a deposit account provided by the City until October 1, 2017. After October 1, 2017 all self-insurance liability claims are being adjusted and paid through the use of an in-house claims adjuster who, with the assistance of Risk Manager, sets reserves. 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. In FY 2018 LP&L separated property and boiler and machinery as a cost savings measure. The property insurance policy was purchased from an outside insurance carrier. The policy has a $500,000 wind/hail deductible per occurrence and a $250,000 deductible for all other forms of loss. LP&L purchased package property and boiler and machinery coverage form an outside carrier. The policy has various deductibles for both property and boiler and machinery ranging from $100,000 to 2.5% of location values. Premiums are charged based upon estimated premiums for the upcoming year.

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 $700,000 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 $2.06 million at September 30, 2018 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. 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. The following represents the significant litigation against the City that relates to LP&L during the time period covered by the financial statements:

Neil McCullough, Individually and on behalf of the Estate of MacKenzie McCullough
A claim has been filed with the City which names the City, LP&L, and the City's Water Department. The City's Risk Department has advised that the incident in question involves only the governmental function of water supply, and as a result they, in concert with the City Attorney's office, are handling the claim.

Peter Evans and Timothy Evans v. City of Lubbock, et al
The Plaintiffs suffered injuries in an auto collision involving a City (LP&L) vehicle/employee and are claiming damages in excess of $200,000. The City will challenge (i) causation (other parties involvement in the collision); and (ii) amount of damages, in this case. The City intends to vigorously defend itself in this action, and will assert any applicable defenses and try the case if necessary or advisable.

NOTE 15: SITE REMEDIATION

LP&L accounts for pollution remediation obligations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. LP&L contracts with an engineering firm to perform the necessary remediation activities and cost estimates. Pollution remediation obligations are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

As of September 30, 2018, LP&L owns one property with environmental issues that meet the criteria for "obligating events" and disclosure under GASB Statement No. 49. The LP&L Cooke Plant (Cooke) environmental issue is a result of leaking underground diesel storage tanks. The Cooke property meets the criteria for environmental issues and has been in existence for several years. It is at the "remediation design and implementation, through and including operation and maintenance, and post remediation monitoring" benchmark discussed in GASB 49. LP&L has been monitoring and recording this obligation for over ten years.

LP&L contracts with an engineering firm (eHT/Enprotec) to perform the necessary remediation activities. eHT/Enprotec works closely with the Texas Commission on Environmental Quality (TCEQ) on this property. The remediation activities the City is required to perform have been approved by TCEQ. LP&L has a set plan of action for this property (Cooke Plan) that TCEQ requires the City to follow. As of September 30, 2018, LP&L recorded a liability related to the underground storage tanks is in the amount of $44,700.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2018

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

	2018	2017	2016	2015
Total pension liability				
Service Cost	$ 3,094,041	$ 2,944,598	$ 2,875,400	$ 2,528,145
Interest (on the Total Pension Liability)	8,538,646	8,107,660	7,972,442	7,639,097
Changes of benefit terms	(133,708)	(21,609)	-	-
Difference between expected and actual experience	-	-	(424,313)	(1,012,979)
Change of assumptions	-	-	199,125	-
Benefit payments, including refunds of employee contributions	(6,658,022)	(5,962,200)	(5,926,334)	(5,266,488)
Net Change in Total Pension Liability	4,840,957	5,068,449	4,696,318	3,887,775
Total Pension Liability - Beginning	124,151,664	119,083,215	114,386,897	110,499,122
Total Pension Liability - Ending (a)	$ 128,992,621	$ 124,151,664	$ 119,083,215	$ 114,386,897
Plan Fiduciary Net Position				
Contributions - Employer	$ 3,276,308	$ 3,112,712	$ 3,207,998	$ 3,061,656
Contributions - Employee	1,277,854	1,213,195	1,209,360	1,127,051
Net Investment Income	14,484,811	6,642,534	145,404	5,346,027
Benefit payments, including refunds of employee	-	-	-	-
contributions	(6,658,022)	(5,962,200)	(5,926,334)	(5,266,488)
Administrative Expense	(75,081)	(75,034)	(88,569)	(55,818)
Other	(3,806)	(4,042)	(4,374)	(4,589)
Net Change in Plan Fiduciary Net Position	12,302,064	4,927,165	(1,456,516)	4,207,839
Plan Fiduciary Net Position - Beginning	101,135,750	96,208,585	97,665,101	93,457,262
Plan Fiduciary Net Position - Ending (b)	$ 113,437,814	$ 101,135,750	$ 96,208,585	$ 97,665,101
Net Pension Liability - Ending (a) - (b)	$ 15,554,807	$ 23,015,914	$ 22,874,630	$ 16,721,796
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	87.94%	81.46%	80.79%	85.38%
Covered Payroll	18,243,168	17,476,056	17,259,301	16,080,396
Net Pension Liability as a Percentage of Covered Payroll	85.26%	131.70%	132.54%	103.99%

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2018

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

	2018	2017	2016	2015
Actuarially Determined Contribution	$ 3,351,716	$ 3,187,375	$ 3,090,958	$ 3,063,920
Contributions in relation to the actuarially determined contribution	$ 3,351,716	$ 3,187,375	$ 3,090,958	$ 3,063,920
Contribution deficiency (excess)	-	-	-	-
Covered payroll	18,597,062	17,754,334	17,054,069	16,406,171
Contributions as a percentage of covered payroll	18.02%	17.95%	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, 12 months and one day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 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 pursuant 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: Information in this table has been determined as of the City's most recent fiscal year-end (September 30) and will ultimately contain information for ten years.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2018

LP&L's Schedule of Changes in Total OPEB Liability and Related Ratios

		2018
Total OPEB liability		
Service Cost	$	946,297
Interest (on the Total OPEB Liability)		669,193
Changes of benefit terms		-
Difference between expected and actual experience		-
Change of assumptions		1,007,111
Benefit payments		(730,310)
Net Change in Total OPEB Liability		1,892,291
Total OPEB Liability - Beginning		17,456,127
Total OPEB Liability - Ending (a)	$	19,348,418
Covered Payroll		16,596,735
Net OPEB Liability as a Percentage of Covered Payroll		116.58%

NOTE: The City implemented GASB Statement No. 75 in FY 2018. Information in this table has been determined as of the measurement date (December 31) of the total OPEB liability and will ultimately contain information for ten years.

Changes in assumptions: reflects a change in the discount rate from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Stateement No. 75.

Acknowledgements

LP&L would like to thank the City of Lubbock Accounting Department for their assistance in preparing the FY 2017-18 LP&L Annual Financial Report. Preparation of this report would not have been possible without the timely cooperation and assistance of the following individuals:

D. Blu Kostelich	Chief Financial Officer
Linda Cuellar, CPA	Director of Accounting
Brack Bullock	Accounting Manager
Veronica Valderaz	Accounting Manager
Deborah Hansard	Senior Accountant
Amber Aguilar	Senior Accountant
Amber Painter, CPA	Senior Accountant
Meg Beverly	Senior Accountant

Lubbock Power & Light

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