

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

FINANCIAL STATEMENTS

SEPTEMBER 30, 2003 AND 2002

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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor, City Commissioners  
and City Manager  
City of Lakeland, Florida

We have audited the accompanying financial statements of the Department of Electric Utilities (Lakeland Electric) of the City of Lakeland, Florida, as of September 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Department of Electric Utilities of the City of Lakeland, Florida, and do not purport to, and do not, present fairly the financial position of the City of Lakeland, Florida, as of September 30, 2003 and 2002, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Electric Utilities of the City of Lakeland, Florida, as of September 30, 2003 and 2002, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Carter, Belmont + Atkinson, P.A.*

February 20, 2004  
Lakeland, Florida

**CITY OF LAKELAND, FLORIDA**  
**DEPARTMENT OF ELECTRIC UTILITIES**

**Management's Discussion and Analysis**

The Management's Discussion and Analysis section provides a narrative overview of the City of Lakeland's Department of Electric Utilities' (Lakeland Electric) financial activities for the fiscal year ending September 30, 2003. Readers are encouraged to consider the information presented in this section in conjunction with additional information contained in the financial report. The following condensed Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets summarize the financial condition and operations of Lakeland Electric for the years ended September 30, 2003 and 2002 respectively:

	<u>(In Thousands)</u>	
	<u>September 30</u>	
	<u>2003</u>	<u>2002</u>
<u>Assets</u>		
Utility plant, net	\$ 632,660	\$ 631,228
Current assets	82,528	85,139
Restricted assets	33,572	36,053
Other noncurrent assets	104,826	116,579
	<u>\$ 853,586</u>	<u>\$ 868,999</u>
<u>Liabilities and Net Assets</u>		
Long-term debt	\$ 495,396	\$ 504,218
Current liabilities	21,992	21,032
Current liabilities not payable from current assets	30,867	42,769
Other noncurrent liabilities	13,094	11,069
Net assets invested in capital assets, net of related debt	173,182	170,341
Unrestricted net assets	119,055	119,570
	<u>\$ 853,586</u>	<u>\$ 868,999</u>
<u>Revenues, Expenses and Changes in Net Assets:</u>		
Operating revenues	\$ 294,362	\$ 264,286
Operating expenses	247,205	222,040
Operating income	47,157	42,246
Nonoperating income	2,172	2,948
Nonoperating expenses	(26,063)	(24,403)
Income before transfers	23,266	20,791
Transfers	(20,940)	(19,847)
Change in net assets	2,326	944
Net assets, beginning of year	289,911	288,967
Net assets, end of year	<u>\$ 292,237</u>	<u>\$ 289,911</u>

**Using This Annual Report**

This annual report includes the balance sheet, statement of revenues, expenses and change in net assets, statement of cash flows and notes to the financial statements for Lakeland Electric, which is an enterprise fund of the City of Lakeland. Please refer to the annual report of the City of Lakeland for more information about the City of Lakeland as a whole.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

Management's Discussion and Analysis (Continued)

**Financial Highlights**

- Deferred Regulatory Charges of \$12.6 million are included in Lakeland Electric's current assets. This represents the cumulative "under recovery" of fuel costs from retail customers as of September 30, 2003. The Lakeland City Commission authorized fuel adjustment increases during fiscal year 2003 in response to the rising fuel costs that created this shortfall.
- On January 22, 2003, Lakeland Electric issued Energy System Variable Rate Refunding Revenue Bonds in the amount of \$47.9 million. The proceeds are to provide funds to (1) refund all of the outstanding City of Lakeland Energy System Revenue Bonds, Series 2000B, (2) pay the cost of certain distribution facilities, including substations and related circuits, development/customer service facilities, system upgrades and reliability improvements, and (3) pay certain costs and expenses related to the issuance of the Series 2003 Bonds.
- Operating revenues increased by \$30.1 million from the previous year. This is a result an \$18 million increase in wholesale sales, a 4% increase in retail energy consumption, and an overall retail rate increase that went into effect during the last quarter of fiscal year 2002. For related information, see reclassification section of Note A.
- Non-fuel operating expenses increased by \$3.8 million from the previous year. This was primarily the result of large increases in property and hospitalization insurance, as well as an additional \$1.3 million pension funding requirement.

**Capital Asset and Debt Administration**

**Capital Assets**

The following table contains a summary of the utility plant investment net of accumulated depreciation as of the September 30, 2003 and 2002:

	(In Thousands)	
	September 30	
	2003	2002
Land	\$ 9,454	\$ 8,326
Construction in process	27,608	18,120
Buildings	19,083	16,850
Machinery and equipment	23,795	20,620
Electric transmission and distribution	215,197	222,695
Electric plants in service	337,523	344,617
	\$ 632,660	\$ 631,228

During recent fiscal years, Lakeland Electric placed significant plant assets into service, including a 360 megawatt combined cycle unit and a 50 megawatt peaking facility. Lakeland Electric has sufficient generation and transmission capacity to cover its projected load requirements for the next eight to ten years. As can be seen in the above schedule, there was little increase in net fixed assets during fiscal year 2003. Management is now concentrating on long term capital improvement issues such as the replacement of older generation units.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

Management's Discussion and Analysis (Continued)

**Debt**

At September 30, 2003, Lakeland Electric had \$495.4 million in net long-term debt outstanding compared to \$504.2 million at the end of 2002 as shown in the following table:

	(In Thousands)	
	September 30	
	2003	2002
Electric System Revenue Bonds:		
Series 1999A	\$ 194,565	\$ 194,935
Series 1999B	105,525	117,705
Series 1999C	64,525	64,525
Series 2000B	-	41,825
Series 2001A	90,000	90,000
Series 2001B	30,000	30,000
Series 2003	47,860	-
	532,475	538,990
Less current portion	(11,745)	(12,550)
Less unamortized loss on refunding	(27,110)	(24,639)
Unamortized bond discount (net of premium)	1,776	2,417
	\$ 495,396	\$ 504,218

\*Series 1999A Electric and Water Refunding Bonds includes Electric portion only.

On January 22, 2003, Lakeland Electric issued Energy System Variable Rate Refunding Revenue Bonds, Series 2003. These are variable rate bonds with a total principal amount of \$47.9 million. The bonds are repaid starting in FY 2021, with the final payment in FY 2037. The proceeds were used to refund the energy System Revenue Bonds, Series 2000B in the amount of \$41.8 million.

Simultaneously with the issue of the 2003 revenue bonds, the City entered into an interest rate swap agreement with Salomon Smith Barney Holding Inc. (SSBHI). The notional amount of the transaction was \$47.9 million. Under the terms of this agreement, Lakeland Electric is to make monthly payments to SSBHI in the amount equal to the notional amount times 1/12th of the annual interest rate of 3.74%. These payments commenced on February 5, 2003 and terminate on October 1, 2037. In exchange for this payment, SSBHI is to pay Lakeland Electric a monthly amount equal to the variable rate of interest paid each month on the Energy System Variable Rate Refunding Revenue Bonds, Series 2003 (see above). Starting with the payments due after July 20, 2004, the monthly amounts payable by SSBHI are capped at an amount equal to the average of 67% of the one month USD-LIBOR-BBA interest rate for the then preceding 180 day period - multiplied times the notional amount.

LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

Management's Discussion and Analysis (Continued)

**Economic Factors**

Lakeland Electric expects to see continued growth in retail revenue with an anticipated increase in the customer base of about 2%. The growth in revenue, along with cost control measures and timely rate relief as necessary to address any significant future fuel cost increases, should allow Lakeland Electric to continue to show bond coverage from operations of over 2 times.

A continued upward trend in fuel costs (natural gas, coal, oil and petroleum coke) can be expected, with the possibility of significant fluctuations in oil and natural gas. Lakeland Electric is making further efforts to manage this risk by expanding its fuel hedging program. A consulting firm was hired during fiscal year 2003 to provide additional expertise in managing natural gas costs.

In 2000, Lakeland Electric entered into a contract with the Florida Municipal Power Association (FMPA) that allows FMPA the option of taking up to 100 Megawatts of energy per hour at a fixed price. The contract, which runs until December 2010, contains a fuel escalation clause that has not kept pace with the rapid increase in natural gas prices, creating losses under the contract. Lakeland Electric is currently negotiating with FMPA in an attempt to minimize the losses. The requirements of this contract may also cause Lakeland Electric to miss opportunities of making other wholesale sales at market price.

**Request for Information**

This financial report is designed to provide a general overview of Lakeland Electric's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Finance Director - Electric, Lakeland Electric, 501 East Lemon St, Lakeland, FL 33801.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

BALANCE SHEETS

	September 30	
	2003	2002
<u>ASSETS</u>		
UTILITY PLANT:		
Utility plant in service	\$ 977,582,785	\$ 968,994,878
Less accumulated depreciation	372,530,922	355,887,156
	605,051,863	613,107,722
Construction in progress	27,607,910	18,120,010
Total utility plant	632,659,773	631,227,732
CURRENT ASSETS:		
Cash and cash equivalents	1,128,697	3,769,221
Accounts receivable	42,056,129	47,529,398
Less allowance for uncollectibles	(913,655)	(1,515,572)
Inventories	26,546,702	29,595,044
Deferred regulatory charges	12,651,731	-
Other current assets	1,058,626	5,761,221
Total current assets	82,528,230	85,139,312
RESTRICTED ASSETS	33,572,299	36,053,332
DESIGNATED ASSETS	96,613,406	106,427,907
OTHER ASSETS	8,212,503	10,150,612
	853,586,211	868,998,895
TOTALS	\$ 853,586,211	\$ 868,998,895
<u>LIABILITIES</u>		
LONG-TERM DEBT, less current portion	\$ 495,396,547	\$ 504,218,113
ACCRUED LIABILITIES, less current portion	13,094,002	11,068,466
ADVANCES FROM OTHER FUNDS, less current portion	1,099,784	-
	509,590,333	515,286,579
CURRENT LIABILITIES, payable from current assets:		
Accounts payable	18,030,489	17,734,091
Accrued liabilities	2,724,097	2,353,377
Due to other funds	137,473	71,954
Deferred regulatory revenue	-	872,984
Total current liabilities, payable from current assets	20,892,059	21,032,406
CURRENT LIABILITIES, payable from designated assets	24,073,665	36,538,981
CURRENT LIABILITIES, payable from restricted assets	6,793,408	6,229,853
Total liabilities	561,349,465	579,087,819
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	173,181,567	170,340,957
Unrestricted	119,055,179	119,570,119
Total net assets	292,236,746	289,911,076
TOTALS	\$ 853,586,211	\$ 868,998,895

See accompanying notes to financial statements.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>Year ended September 30</u>	
	<u>2003</u>	<u>2002</u>
OPERATING REVENUES:		
Sales, electricity	\$ 286,876,694	\$ 257,684,573
Other electric operating revenue	7,485,561	6,601,287
Total operating revenues	<u>294,362,255</u>	<u>264,285,860</u>
OPERATING EXPENSES:		
Fuel and purchased power	142,312,469	122,501,241
Energy supply	26,670,502	27,466,714
Energy delivery	17,533,197	16,038,465
Customer service	8,442,818	8,731,827
State tax on electric sales	5,759,162	5,535,449
Administrative and general	15,301,628	12,272,819
Total operating expenses	<u>216,019,776</u>	<u>192,546,515</u>
OPERATING INCOME BEFORE DEPRECIATION	78,342,479	71,739,345
Less depreciation	<u>31,185,680</u>	<u>29,493,305</u>
OPERATING INCOME	<u>47,156,799</u>	<u>42,246,040</u>
NONOPERATING REVENUES (EXPENSES):		
Interest revenue (less \$425,325 and \$1,123,079 capitalized in 2003 and 2002, respectively)	2,447,192	2,590,886
Net decrease in the fair value of cash equivalents	(880,762)	(86,955)
Miscellaneous revenue	605,556	444,125
Interest expense and fiscal charges (less \$763,911, and \$3,465,683 capitalized in 2003 and 2002, respectively)	(23,925,296)	(22,704,737)
Amortization expense	<u>(2,137,112)</u>	<u>(1,698,364)</u>
	<u>(23,890,422)</u>	<u>(21,455,045)</u>
INCOME BEFORE TRANSFERS	23,266,377	20,790,995
TRANSFERS TO OTHER FUNDS	<u>(20,940,707)</u>	<u>(19,846,889)</u>
CHANGE IN NET ASSETS	2,325,670	944,106
NET ASSETS, beginning of year	<u>289,911,076</u>	<u>288,966,970</u>
NET ASSETS, end of year	<u>\$ 292,236,746</u>	<u>\$ 289,911,076</u>

See accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

STATEMENTS OF CASH FLOWS

	Year ended September 30	
	2003	2002
Cash flows from operating activities:		
Receipts from customers	\$ 298,504,206	\$ 246,335,806
Payments to suppliers	(185,698,674)	(127,602,524)
Payments to employees	(31,179,898)	(29,351,202)
Net cash provided by operating activities	81,625,634	89,382,080
Cash flows used in noncapital financing activities:		
Increase in meter deposits payable, net	568,512	310,244
Operating transfers to other funds	(20,940,707)	(19,846,889)
Cash flows used in noncapital financing activities	(20,372,195)	(19,536,645)
Cash flows used in capital financing activities:		
Interest paid on long-term debt issued to finance capital assets	(29,634,241)	(27,646,698)
Proceeds from issuance of long-term debt	47,860,000	-
Net issuance / repayment of interfund loans	1,165,303	(592,247)
Payments on and maturities of long-term debt	(54,375,000)	(10,085,000)
Purchase of capital assets	(43,228,843)	(55,891,227)
Cash flows used in capital financing activities:	(78,212,781)	(94,215,172)
Cash flows provided by investing activities:		
Investment revenue	2,447,192	2,590,886
Net decrease in the fair value of cash equivalents	(880,762)	(86,955)
Cash flows provided by investing activities	1,566,430	2,503,931
Net decrease in cash and cash equivalents	(15,392,912)	(21,865,806)
Cash and cash equivalents, beginning of year	132,229,243	154,095,049
Cash and cash equivalents, end of year	\$ 116,836,331	\$ 132,229,243
Adjustments to reconcile operating income to net cash provided by operating activities:		
Operating income	\$ 47,156,799	\$ 42,246,040
Depreciation	31,185,680	29,493,305
Miscellaneous revenue	605,556	444,125
Decrease in receivables, net	4,409,377	1,386,321
Decrease (Increase) in inventory	3,048,342	(2,457,121)
Decrease in other current assets	4,702,595	3,711,964
(Increase) Decrease in deferred regulatory charges	(12,651,731)	11,111,208
Decrease (Increase) in net pension obligation	1,349,347	(506,175)
Increase in accounts payable	296,398	668,965
Increase in accrued liabilities	2,396,255	2,410,464
(Decrease) Increase in deferred regulatory revenue	(872,984)	872,984
Net cash provided by operating activities	\$ 81,625,634	\$ 89,382,080

See accompanying notes to financial statements.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present only the financial position, changes in net assets, and cash flows of the City of Lakeland, Department of Electric Utilities (Lakeland Electric) and not of the City as a whole. Lakeland Electric is an enterprise fund that accounts for the City's electric utility operations. These operations are accounted for in a manner similar to private business enterprises where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Basis of Accounting:**

Lakeland Electric uses the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) as prescribed for enterprise funds by the Governmental Accounting Standards Board (GASB). Lakeland Electric has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission for electric operations. Lakeland Electric is required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements. Lakeland Electric has elected not to apply FASB pronouncements issued after that date.

Lakeland Electric applies the accounting principles required by Statement of Financial Accounting Standards No. 71 - Accounting for the Effects of Certain Types of Regulation (SFAS 71). Lakeland Electric's rates are designed to recover the cost of providing services, and the utility is able to collect those rates from its customers. SFAS 71 requires Lakeland Electric to defer certain expenses and revenues, and record various regulatory assets and liabilities in accordance with rate actions of the Lakeland City Commission.

**Cash and Cash Equivalents:**

Lakeland Electric has defined Cash and Cash Equivalents to include cash on hand, demand deposits, cash with paying agents, as well as Lakeland Electric's equity in the City's pooled cash (see Note B). Additionally, Lakeland Electric's equity in the City's internal investment pool (see Note B) is considered to be a cash equivalent since Lakeland Electric can deposit or effectively withdraw cash from the pool at any time without prior notice or penalty.

**Investments:**

All investments are valued at fair market value. State Board of Administration (SBA) and money market funds are reported at cost, which approximates fair value.

**Receivables:**

Lakeland Electric has recognized in receivables an estimated amount for services rendered but not yet billed as of September 30, 2003 and 2002, respectively.

**Inventories:**

Inventories are valued at cost, not in excess of replacement cost, using the weighted average cost method.

**Operating/Non-operating Revenue:**

Revenues that are earned as a result of the business operations of Lakeland Electric are recorded as operating revenues. Interest earnings and other miscellaneous revenues are recorded as non-operating revenues.

**Due to/from Other Funds:**

Amounts receivable from or payable to other funds in the City of Lakeland are reflected in the accounts of the fund until liquidated by payment or authorized inter-fund transactions.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility Plant:

Lakeland Electric is required to record the acquisition and disposition of assets in accordance with guidelines provided by the Federal Energy Regulatory Commission. Accordingly, fixed assets acquired by Lakeland Electric are recorded at cost for purchased assets. Fixed assets do not include the cost or other value of electric plant contributed. Interest costs on funds used for construction of fixed assets are capitalized as part of the costs of these assets.

Routine maintenance, repairs, renewals and replacement costs are charged against operations. Expenditures, which materially increase values, change capacities or extend useful lives are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	40 years
Buildings	50 years
Utility Plant	25 - 35 years
Improvements, other than buildings	10 - 45 years
Machinery and equipment	5 - 40 years

Contributions in Aid of Construction:

Non-refundable payments received from consumers and developers for extension of electric services are accounted for as a reduction of utility plant cost in accordance with accounting procedures required by the Federal Energy Regulatory Commission.

Designations:

Lakeland Electric follows the practice of segregating assets, which are designated for some future use. Designations can be rescinded at any time by city commission approval.

Transfers to Other Funds:

Lakeland Electric accounts for subsidy payments to other funds as transfers to other funds in the statement of revenues, expenses and changes in net assets. Lakeland Electric makes annual transfers to the City of Lakeland as follows:

	<u>Year Ended September 30</u>	
	<u>2003</u>	<u>2002</u>
Annual dividend to the City of Lakeland	\$ 15,525,000	\$ 14,525,000
Transfers to city funds for electric service	4,863,080	4,786,753
Transfers to Public Improvement for fixed assets	343,726	274,625
Transfer to Fleet Management Fund for new vehicles	208,901	260,511
	<u>\$ 20,940,707</u>	<u>\$ 19,846,889</u>

Accumulated Unpaid Vacation and Sick Pay:

The amounts of unpaid vacation and sick leave accumulated by Lakeland Electric employees are accrued as expenses when incurred. Total available sick leave hours are multiplied by the current pay rate to determine the accrued liability. The entire unpaid liability for sick leave is classified as a non-current liability based on Lakeland Electric's benefit accrual policies. Lakeland Electric has separated that portion of the liability for vacation time that is expected to be paid from current assets as a current liability. The amount is included in accrued liabilities.

Amortization:

Bond issue costs and bond discount are amortized over the life of the issue using the straight-line method.

Interest Rate Swap Agreements:

From time to time, Lakeland Electric enters into interest rate swap agreements to modify interest rates on certain outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification:

For comparability, certain 2002 amounts have been reclassified to conform to the financial statement presentation for 2003. Most notably, concerns a policy change in recording transactions related to the Florida Municipal Power Pool (FMPP), of which Lakeland Electric is a member. Prior to 2003, Lakeland Electric reflected wholesale sales to the FMPP as an offset against fuel and purchased power expense. In fiscal year 2003, a policy change was made whereby wholesale sales to FMPP are reported as operating revenue, and purchased power expense is reported on a gross basis. For comparative purposes, 2002 operating revenues and purchased power expenses have been restated to reflect the \$20.7 million wholesale sales to FMPP. The policy change had no effect on net assets or change in net assets.

Other Significant Accounting Policies:

Other significant accounting policies are set forth in the financial statements and the notes thereto.

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits:

All of the City of Lakeland cash accounts have been pooled and all deposits are in a single financial institution and are carried at cost. The deposits are insured or collateralized. Florida Statutes, Chapter 280, sets forth the qualifications and requirements that a financial institution must meet in order to become a qualified public depository. The statute also defines the amount and type of collateral that must be pledged in order to remain qualified. The financial institution in which the City maintains its deposits is a qualified public depository. Refer to the City of Lakeland, Florida comprehensive annual financial report for additional disclosures.

Cash Equivalents and Investments:

The types of investments in which Lakeland Electric may directly invest are governed by several forms of legal and contractual provisions. Lakeland Electric may directly invest in direct obligations of, or obligations on which the principal of and interest are unconditionally guaranteed by the United States of America, obligations issued or guaranteed by any agency or instrumentality of the United States of America, interest bearing time deposits or repurchase agreements issued by banks, trust companies or national banking associations which are secured by obligations of or guaranteed by the United States of America or its agencies or instrumentalities. Lakeland Electric also may invest monies with the Florida State Board of Administration or other investments which at the time are legal investments under the laws of the State of Florida. Additionally, the various funds of the City have combined some of their resources into an internal investment pool in order to maximize investment earnings. The pool is comprised of money market funds, time deposits, notes, bonds, amounts invested with the Florida State Board of Administration, other securities, and accrued interest.

Lakeland Electric has an equity interest in the City's internal investment pool. There were no violations of legal or contractual provision for deposits and investments during the year.

The investments held as of September 30, 2003 and 2002 are classified according to type of credit risk. These credit risk categories are defined as follows:

Category A - Insured or registered securities held by Lakeland Electric or their agents in Lakeland Electric's name.

Category B - Uninsured and unregistered securities held by the counterparty's trust department or agent in Lakeland Electric's name.

Category C - Uninsured and unregistered securities held by the counterparty or by its trust department or agent, but not in Lakeland Electric's name.

These broad categories do not apply to all types of investments owned by Lakeland Electric. The investments with the Florida State Board of Administration are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The carrying amount of Lakeland Electric's demand and time deposits with financial institutions as of September 30, 2003 was a balance of \$2,328,356.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Cash Equivalents and Investments held directly by Lakeland Electric as of September 30, 2003 are as follows:

	<u>Interest Rate %</u>	<u>Maturing Through</u>	<u>Reported Amount Fair Value</u>
Uncategorized:			
Florida State Board of Administration	(1)	(1)	\$ 25,995,821

Cash Equivalents and Investments held directly by Lakeland Electric as of September 30, 2002 are as follows:

	<u>Interest Rate %</u>	<u>Maturing Through</u>	<u>Reported Amount Fair Value</u>
Uncategorized:			
Florida State Board of Administration	(1)	(1)	\$ 30,039,418

(1) Funds are invested in the Florida State Board of Administration's local government pooled investment account. The rate of interest fluctuates daily. The interest rate on September 30, 2003 and 2002 was 1.30% and 1.91%, respectively.

EQUITY IN POOLED INVESTMENTS:

Information regarding credit risk categories for pooled investments is disclosed in the comprehensive annual financial report for the City.

As of September 30, 2003 and 2002, the fair value of the total investment pool and Lakeland Electric's share of the pool was as follows:

	<u>Reported Amount Fair Value</u>
<u>As of September 30, 2003:</u>	
Total Investment Pool	\$ 243,951,636
Lakeland Electric's Share of the Investment Pool	\$ 88,704,370
<u>As of September 30, 2002:</u>	
Total Investment Pool	\$ 258,911,649
Lakeland Electric's Share of the Investment Pool	\$ 105,968,683

There are no violations of legal or contractual provisions for deposits and investments held directly by the investment pool during the year.

Cash, cash equivalents and investments are included in the following captions in the accompanying balance sheets:

	<u>September 30</u>	
	<u>2003</u>	<u>2002</u>
Current assets:		
Cash and cash equivalents	\$ 1,128,697	\$ 3,769,221
Designated assets:		
Cash and cash equivalents	82,135,335	92,406,690
Restricted assets		
Cash and cash equivalents	33,572,299	36,053,332
	<u>\$ 116,836,331</u>	<u>\$ 132,229,243</u>

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE C - INVENTORIES

The major classes of inventory consist of the following:

	September 30	
	2003	2002
Fuel oil	\$ 5,306,509	\$ 6,487,294
Coal	3,822,050	5,425,744
Spare parts	17,418,143	17,682,006
	\$ 26,546,702	\$ 29,595,044

NOTE D - RESTRICTED ASSETS

The revenue bond ordinances and certain other agreements require the restriction of certain assets for specific purposes. Restricted assets and current liabilities payable from restricted assets in Lakeland Electric as of September 30, 2003 and 2002 consist of the following:

	Bond Proceeds	Customer Deposits	Total Restricted
<u>September 30, 2003:</u>			
Cash and cash equivalents	\$ 26,778,891	\$ 6,793,408	\$ 33,572,299
Meter deposits payable	\$ -	\$ 6,783,776	\$ 6,783,776
Accrued interest payable	-	9,632	9,632
Current liabilities, payable from restricted assets	\$ -	\$ 6,793,408	\$ 6,793,408

	Bond Proceeds	Customer Deposits	Total Restricted
<u>September 30, 2002:</u>			
Cash and cash equivalents	\$ 29,823,479	\$ 6,229,853	\$ 36,053,332
Meter deposits payable	\$ -	\$ 6,215,264	\$ 6,215,264
Accrued interest payable	-	14,589	14,589
Current liabilities, payable from restricted assets	\$ -	\$ 6,229,853	\$ 6,229,853

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE E - DESIGNATED ASSETS

The City of Lakeland and Lakeland Electric have established long range plans concerning the utility. As part of the plan to achieve its objectives, the City Commission has set aside certain assets that will be used to fund its plans for future expansion. Debt service funds are set aside monthly and designated for that purpose, even though there is no longer a legal requirement to do so.

Designated assets of Lakeland Electric consists of the following:

	Debt Service Funds	Future Expansion	Capital Fund	Total
September 30, 2003:				
Cash and cash equivalents	\$ 255,220	\$ 32,435,696	\$ 27,655,650	\$ 60,346,566
Cash with paying agent/trustee	21,788,769	-	-	21,788,769
Accounts receivable	-	1,018,774	-	1,018,774
Advances to other funds	13,459,297	-	-	13,459,297
Designated assets	<u>\$ 35,503,286</u>	<u>\$ 33,454,470</u>	<u>\$ 27,655,650</u>	<u>\$ 96,613,406</u>
Current portion of revenue				
bonds payable	\$ 11,745,000	\$ -	\$ -	\$ 11,745,000
Accounts payable	25,458	-	1,732,452	1,757,910
Accrued expenses	-	-	297,226	297,226
Accrued interest payable	10,273,529	-	-	10,273,529
Current liabilities, payable from designated assets	<u>\$ 22,043,987</u>	<u>\$ -</u>	<u>\$ 2,029,678</u>	<u>\$ 24,073,665</u>
September 30, 2002:				
Cash and cash equivalents	\$ 116,875	\$ 40,775,676	\$ 27,380,039	\$ 68,272,590
Cash with paying agent/trustee	24,134,100	-	-	24,134,100
Accounts receivable	-	556,799	-	556,799
Advances to other funds	13,464,418	-	-	13,464,418
Designated assets	<u>\$ 37,515,393</u>	<u>\$ 41,332,475</u>	<u>\$ 27,380,039</u>	<u>\$ 106,427,907</u>
Current portion of revenue				
bonds payable	\$ 12,550,000	\$ -	\$ -	\$ 12,550,000
Accounts payable	17,014	-	1,927,424	1,944,438
Accrued expenses	-	-	10,360,579	10,360,579
Accrued interest payable	11,683,964	-	-	11,683,964
Current liabilities, payable from designated assets	<u>\$ 24,250,978</u>	<u>\$ -</u>	<u>\$ 12,288,003</u>	<u>\$ 36,538,981</u>

NOTE F - OTHER ASSETS

Other Assets consist of the following:

	September 30	
	2003	2002
Unamortized bond issue cost	\$ 5,506,100	\$ 6,094,862
Net pension obligation (assets)	2,706,403	4,055,750
	<u>\$ 8,212,503</u>	<u>\$ 10,150,612</u>

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE G - UTILITY PLANT

Utility plant consists of the following:

	September 30, 2002	Additions	Deletions	September 30, 2003
Non-Depreciable Assets:				
Land	\$ 8,326,296	\$ 1,128,046	\$ -	\$ 9,454,342
Construction in process	18,120,010	14,167,542	4,679,642	27,607,910
Depreciable Assets:				
Buildings	23,764,105	3,054,289	-	26,818,394
Machinery and equipment	36,506,336	7,324,558	5,937,888	37,893,006
Electric transmission and distribution	322,936,294	2,063,244	1,946,825	323,052,713
Electric plants in service	577,461,847	9,599,386	6,696,903	580,364,330
	<u>987,114,888</u>	<u>37,337,065</u>	<u>19,261,258</u>	<u>1,005,190,695</u>
Less accumulated depreciation:				
Buildings	6,914,154	821,062	-	7,735,216
Machinery and equipment	15,886,798	4,113,042	5,901,486	14,098,354
Electric transmission and distribution	100,241,249	9,567,101	1,952,470	107,855,880
Electric plants in service	232,844,955	16,684,475	6,687,958	242,841,472
	<u>355,887,156</u>	<u>31,185,680</u>	<u>14,541,914</u>	<u>372,530,922</u>
Total utility plant	<u>\$ 631,227,732</u>	<u>\$ 6,151,385</u>	<u>\$ 4,719,344</u>	<u>\$ 632,659,773</u>

In accordance with Statements of Financial Accounting Standards (SFAS) Nos. 34 and 62, Lakeland Electric has adopted the policy of capitalizing net interest costs on funds used for the construction of fixed assets. In accordance with the provisions of these statements, net interest costs have been capitalized as follows:

	Year ended September 30	
	2003	2002
Amount Capitalized:		
Interest expense	\$ 763,911	\$ 3,465,683
Less: Interest revenue	<u>425,325</u>	<u>1,123,079</u>
Net interest capitalized	<u>\$ 338,586</u>	<u>\$ 2,342,604</u>
Total interest expense	\$ 24,689,207	\$ 26,170,420
Less: Interest expense capitalized	<u>763,911</u>	<u>3,465,683</u>
Interest expense	<u>\$ 23,925,296</u>	<u>\$ 22,704,737</u>

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE H - UTILITY PLANT PARTICIPATION AGREEMENT

On April 4, 1978, the City entered into a fifty-year participation agreement with the Orlando Utilities Commission. Under the terms of this agreement, the City of Lakeland has a 60% interest and Orlando Utilities Commission a 40% interest in McIntosh Unit #3, a 364-megawatt coal-fired steam generating unit. The Orlando Utilities Commission constructed, at its expense, a 230 KV transmission line to deliver its share of the output to its service area.

The City has operational control of this project and accounts for its undivided ownership interest based on its pro-rata share of the project's construction costs and operating expenses.

The City of Lakeland issued revenue bonds to cover a portion of its investment in the plant. Orlando Utilities Commission also issued revenue bonds to cover a portion of its investment in the plant and the cost of its 230 KV transmission line. Each participant is solely responsible for its debt issued.

NOTE I – LONG-TERM DEBT

Long term debt consists of the following:

	September 30	
	2003	2002
Revenue bonds payable, less current portion (NOTE J)	\$ 520,730,409	\$ 526,440,409
Less unamortized loss on refunding	(27,109,702)	(24,638,539)
Plus unamortized bond discount (net of premium)	1,775,840	2,416,243
	\$ 495,396,547	\$ 504,218,113

NOTE J - REVENUE BONDS

Revenue bonds payable as of September 30, 2003:

	Interest Rate %	Final Maturity	September 30, 2002	Additions	Deletions	September 30, 2003
Series 1999A	3.05 to 5.0	10-01-36	\$ 194,935,409	\$ -	\$ 370,000	\$ 194,565,409
Series 1999B	5.3 to 6.55	10-01-14	117,705,000	-	12,180,000	105,525,000
Series 1999C	5.3 to 6.05	10-01-12	64,525,000	-	-	64,525,000
Series 2000B	5.5	10-01-40	41,825,000	-	41,825,000	-
Series 2001A	Variable	10-01-35	90,000,000	-	-	90,000,000
Series 2001B	5.0 to 5.50	10-01-18	30,000,000	-	-	30,000,000
Series 2003	Variable	10-01-37	-	47,860,000	-	47,860,000
			538,990,409	\$ 47,860,000	\$ 54,375,000	532,475,409
Less current portion			(12,550,000)			(11,745,000)
			\$ 526,440,409			\$ 520,730,409

Series 1992 bonds and a portion of series 1999A were allocated from Lakeland Electric to the Water Utility Fund in fiscal year 2001. During fiscal year 2002, Lakeland Electric assumed long-term debt from the Water Utility Fund in the amount of \$13.3 million, which was offset by an advance (designated asset) to the Water Utility Fund.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

The following is a schedule of the debt service requirements, excluding the current portion for outstanding revenue bonds, as of September 30, 2003:

Fiscal Year(s)	Series 1999A Sr.		Series 1999B Sr.	
	Principal	Interest	Principal	Interest
2005	\$ 395,000	\$ 7,880,294	\$ 12,855,000	\$ 6,013,225
2006	555,000	7,864,494	14,540,000	5,171,223
2007	575,000	7,842,294	15,585,000	4,218,853
2008	600,000	7,819,294	11,130,000	3,198,035
2009	625,000	7,795,294	12,005,000	2,469,020
2010-2014	29,894,910	62,042,653	19,555,000	5,465,745
2015-2019	51,080,499	41,238,601	8,495,000	513,947
2020-2024	29,225,000	23,851,500	-	-
2025-2029	25,340,000	17,896,250	-	-
2030-2034	32,345,000	10,895,500	-	-
2035-2039	23,545,000	2,392,750	-	-
	<u>\$ 194,180,409</u>	<u>\$ 197,518,924</u>	<u>\$ 94,165,000</u>	<u>\$ 27,050,048</u>

Fiscal Year(s)	Series 1999C Sr.		Series 2001A Sr.		Series 2001B Sr.	
	Principal	Interest	Principal	Interest*	Principal	Interest
2005	\$ -	\$ 3,903,763	\$ -	\$ 1,430,550	\$ -	\$ 1,561,100
2006	-	3,903,763	-	1,430,550	-	1,561,100
2007	-	3,903,763	-	1,430,550	-	1,561,100
2008	5,095,000	3,903,763	-	1,430,550	-	1,561,100
2009	5,370,000	3,595,515	-	1,430,550	-	1,561,100
2010-2014	54,060,000	9,256,802	-	7,152,750	6,565,000	7,444,425
2015-2019	-	-	-	7,152,750	23,435,000	3,165,500
2020-2024	-	-	14,185,000	6,820,107	-	-
2025-2029	-	-	27,505,000	4,965,320	-	-
2030-2034	-	-	33,190,000	2,560,048	-	-
2035-2039	-	-	15,120,000	242,558	-	-
	<u>\$ 64,525,000</u>	<u>\$ 28,467,369</u>	<u>\$ 90,000,000</u>	<u>\$ 36,046,283</u>	<u>\$ 30,000,000</u>	<u>\$ 18,415,425</u>

\* Interest requirements for Energy System Variable Rate Revenue Bonds are calculated using 110% of the average actual interest rate for the twelve months ending September 30, 2003.

Fiscal Year(s)	Series 2003.		TOTAL		
	Principal	Interest	Principal	Interest	Total
2005	\$ -	\$ 1,640,800	\$ 13,250,000	\$ 22,429,732	\$ 35,679,732
2006	-	1,819,797	15,095,000	21,750,927	36,845,927
2007	-	1,784,992	16,160,000	20,741,552	36,901,552
2008	-	1,784,992	16,825,000	19,697,734	36,522,734
2009	-	1,919,239	18,000,000	18,770,718	36,770,718
2010-2014	-	8,815,573	110,074,910	100,177,948	210,252,858
2015-2019	-	8,954,792	83,010,499	61,025,590	144,036,089
2020-2024	-	8,954,793	43,410,000	39,626,400	83,036,400
2025-2029	-	8,949,820	52,845,000	31,811,390	84,656,390
2030-2034	-	8,954,792	65,535,000	22,410,340	87,945,340
2035-2039	47,860,000	5,199,934	86,525,000	7,835,242	94,360,242
	<u>\$ 47,860,000</u>	<u>\$ 58,779,524</u>	<u>\$ 520,730,409</u>	<u>\$ 366,277,573</u>	<u>\$ 887,007,982</u>

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE J - REVENUE BONDS (CONTINUED)

Lakeland Electric's bond coverage calculation changed significantly under the 1999 first lien bond ordinance. The following is a schedule of combined senior and junior lien revenue bond coverage for fiscal year 2003 and the previous five years per the current senior lien ordinance:

Fiscal Year	Net Revenues Available	Debt Service Principal	Debt Service Interest	Total Debt Service	Coverage from Operations	Bond Ordinance Coverage
2003	\$ 83,203,722	\$ 11,745,000	\$ 23,940,421	\$ 35,685,421	2.33	3.03
2002	74,687,403	12,550,000	25,037,914	37,587,914	1.99	2.82
2001	86,077,891	10,085,000	25,657,600	35,742,600	2.41	3.22
2000	91,543,249	9,520,000	22,392,786	31,912,786	2.87	3.65
1999	94,483,488	8,335,000	23,700,881	32,035,881	2.95	3.79
1998	89,134,341	10,815,000	23,200,761	34,015,761	2.62	3.05

Bond debt coverage for the year ended September 30, 2003 was calculated as follows:

Charges for services	\$ 294,362,255	
Investment and other income	4,861,243	
Total revenue		\$ 299,223,498
Less cost of operations		<u>(216,019,776)</u>
Net revenues from operations available for debt service		83,203,722
Fund balance (as defined by bond ordinance):		
Cash and equivalents	\$ 1,128,697	
Accounts receivable (net of uncollectables)	41,142,474	
Designated assets:		
Cash and cash equivalents	82,135,335	
Receivables	1,018,774	
	<u>\$ 125,425,280</u>	
20% of fund balance		25,085,056
Net available revenues plus 20% of fund balance		<u>\$ 108,288,778</u>
Debt service requirement:		
Interest		\$ 23,940,421
Principal		11,745,000
Total		<u>\$ 35,685,421</u>
Bond coverage		<u>3.03</u>
Bond coverage from operations		<u>2.33</u>

All of the outstanding revenue bonds are secured by a first lien on and pledge of the net revenues of the Electric system. As of September 30, 2003 all funds and accounts required by the bond ordinance were being maintained in conformance with the ordinance.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE J - REVENUE BONDS (CONTINUED)

For financial reporting purposes, the Series 1996 bonds, 1989 bonds, 1992 bonds and 2000 bonds have been determined by legal counsel to be fully defeased. Therefore, the debt has been removed as a liability from the balance sheet of Lakeland Electric. As of September 30, 2003 the amount of defeased debt outstanding and removed as a liability is as follows:

Electric and Water Revenue Bonds, Series 2000B Senior	\$ 41,825,000
Electric and Water Revenue Bonds, Series 1989 Senior	\$ 115,720,000
Electric and Water Revenue Bonds, Series 1992 Senior	\$ 49,330,000
Electric and Water Revenue Bonds, Series 1996A Subordinate Lien	\$ 3,980,000
Electric and Water Revenue Bonds, Series 1996B Subordinate Lien	\$ 380,000
Electric and Water Revenue Bonds, Series 1996A Senior Lien	\$ 93,250,000
Electric and Water Revenue Bonds, Series 1996B Senior Lien	\$ 56,440,000

NOTE K - EMPLOYEE RETIREMENT SYSTEM

The City maintains and administers an Employee Pension and Retirement System Plan which is a single employer, defined benefit pension plan. It covers substantially all full-time, regular employees of the City. The Plan is funded from contributions provided by both the employer and employees. The plan is subject to periodic review by an independent actuary to determine the required funding level upon which the City bases the annual contributions.

Contributions – Employee contributions are recorded in the period in which they are payroll deducted from plan participants. Contributions from the City are made and recorded at the same time. Prior to October 1, 2003 the required contribution rate was 7% for employees and 12.87% for the City. The actuarial study during fiscal year 2003 indicated a need to increase funding levels. The City Commission has approved increases in the contribution rates to 8% for the employee portion and 14.4% for the City portion. These increases were effective October 1, 2003.

Pension Benefits – Plan participants as of September 30, 2003 may retire, without penalty, after attaining age 60 and contributing 10 or more years to this plan. The monthly benefit is determined by multiplying the average monthly salary by a service and benefit factor. The average monthly salary is computed using the average of the highest total earnings over a consecutive period of 36 months. The service factor is based on the length of continuous service determined as follows: 3% per year for the first 25 years of service plus 1% per year for all service above 25 years.

Plan participants who enter the plan on or after October 1, 2003 with 10 years or more of service may retire at normal retirement age of 62. The retirement income for an employee who retires on the normal retirement date will equal 2% of the highest total earnings over a consecutive period of 60 months multiplied times the number of years of credit service up to 10 years, 3% of the same average earnings for the next 20 years of credited service, and 1% per year of the same average for each year of service in excess of 30 years.

The Plan includes a provision for an annual across-the-board increase in the benefit paid to all retirees if certain conditions occur. The amount of the annual increase, if any, is a factor of the investment performance of the Plan for the preceding year considered in relation to the actuarially assumed rate of investment return.

Termination Benefits - If a member employee is terminated, either voluntarily or involuntarily, the following benefits are payable: If the employee has less than 10 years of credited service, the employee shall be entitled to a refund of amounts contributed by the employee. If the employee has ten or more years credited service, the employee will be entitled to the accrued monthly retirement benefit to commence on normal retirement date, provided the employee's contributions are left in the fund. A terminated employee may also elect an early retirement benefit as described above.

The authority for establishing or amending the benefit provisions and contribution provisions is contained in City ordinances.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE K - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

For the following information, refer to the City of Lakeland, Florida, Employees' Pension and Retirement System stand-alone financial statements which can be obtained by contacting the City of Lakeland, Finance Department, City Hall, 228 S. Massachusetts Ave., Lakeland, FL 33801-5086:

- Annual pension cost
- Dollar amount of contributions
- Date of Actuarial valuation
- Identification of actuarial method and assumptions
- Required supplemental information

NOTE L - BUSINESS SEGMENT

The Lakeland Electric operates in only one business segment, that of providing electric utility service. Its service area is primarily the City of Lakeland, Florida and the immediate area surrounding the City.

NOTE M - POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note K, the City Commission has agreed to offer subsidized post-employment health care benefits to former employees who are receiving retirement benefits from the City.

On May 1, 1989, the City Commission agreed to subsidize 50 percent of the cost of Part A Medicare insurance coverage purchased by any person receiving retirement benefits from the City of Lakeland. This agreement can be rescinded by the City at any time. To date, there have been no participants in this program.

On September 18, 1989, the City Commission agreed to subsidize the cost of health insurance coverage offered to any person receiving retirement benefits from the City of Lakeland. Effective September 22, 2002 the retirees' health insurance premium subsidy of 50% was reduced as follows: in fiscal year 2003 to 45%, in fiscal year 2004 to 40%, and in subsequent fiscal years to 35%. Effective October 1, 2002, the health insurance premium subsidy is based on years of service. Retirees are required to make an election as to participation in the City-sponsored health insurance plan upon retirement. Effective January 1, 2003 any employee who wishes to have his/her spouse and dependents insured will be required to have them on the plan for one year prior to retirement. Should a participant at any time elect not to purchase coverage from the City-sponsored plan, all eligibility for future participation in that plan, including rights to the subsidy, are terminated. The subsidy program can be terminated by the City at any time. During the fiscal year ended September 30, 2003, retirees from the Utilities who participated in the plan incurred total costs of \$279,317 paid by the City. The subsidy is funded on a pay-as-you-go basis with the cost being charged to the insurance expense accounts of the fund that paid the salary of each participant during his or her tenure as an employee.

NOTE N - DEFERRED COMPENSATION PROGRAM

The City has a Deferred Compensation Program pursuant to Chapter 75-295, as amended by Chapter 76-279, Florida Statutes. In accordance with the Deferred Compensation Program, the City may, by contract and/or collective bargaining agreement, agree with any City employee to defer up to 25% of an employee's gross salary (not to exceed \$13,000 in one year). Under the terms of the program, the City may purchase, at the direction of the employee, fixed or variable life insurance, annuity contracts or mutual fund shares for the purpose of "informally" funding the deferred compensation agreements of the employee. The investments will, at all times, remain solely the property of the employee, held in trust until the employee is eligible to draw the amounts contributed. The compensation deferred under the program is not included in employees' taxable income until such amounts are actually received by employees under the terms of the program.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

NOTE O - LITIGATION

Various suits and claims arising in the ordinary course of operations are pending against Lakeland Electric. While the ultimate effect of such litigation cannot be ascertained at this time, in the opinion of counsel for Lakeland Electric, the liabilities which may arise from such actions would not result in losses which would materially affect the financial position of Lakeland Electric or the results of their operations.

NOTE P - COMMITMENTS AND CONTINGENCIES

Self-Insurance Program:

The City has established a self-insurance fund for worker's compensation, general liability, public officials liability, airport liability, automobile liability, and health insurance. The purpose of this fund is to account for the cost of claims and management fees incurred in conjunction with self-insurance programs. The City makes contributions to the fund based on actuarially computed funding levels. The funding level for Lakeland Electric is determined actuarially based on Lakeland Electric's share of the total City budget, number of vehicles owned and rented, number of employees and payroll. Contributions in excess of these funding levels are accounted for as residual equity transfers in the paying fund. All claims pending at September 30, 2003, have been accrued in the financial statements of the Self-Insurance Fund. An estimated liability for incurred-but-not-reported claims also has been accrued in the financial statements of the self-insured fund.

This program provides coverage up to a maximum of \$400,000 per employee for worker's compensation claims. The City purchases commercial insurance for claims in excess of this amount up to \$1,000,000 per employee. The program provides coverage of up to a maximum of \$150,000 per employee for health insurance claims. The City purchases commercial insurance for claims in excess of this amount up to \$1,000,000 per employee. Refer to the City of Lakeland, Florida comprehensive annual financial report for additional disclosures.

Contractual Commitments:

Lakeland Electric has contracts for the purchase and delivery of coal requiring the purchase of a minimum number of tons per year.

Lakeland Electric also has contracts for the supply and transportation of natural gas requiring the purchase and transportation of a minimum and a maximum number of cubic feet of natural gas per year.

Lakeland Electric has contracts for the purchase/sale and delivery of electric energy setting a maximum number of megawatts available for purchase.

In 2000, Lakeland Electric entered into a contract with the Florida Municipal Power Association (FMPA) that allows FMPA the option of taking up to 100 Megawatts of energy per hour at a fixed cost. The contract runs through December 15, 2010. Significant increases in fuel costs have resulted in substantial losses to Lakeland Electric under this contract. Lakeland Electric is negotiating with FMPA in an attempt to minimize these losses. However, if a settlement is not reached, Lakeland Electric will consider taking other actions. The cost or benefits of any possible action(s) is undeterminable.

Since 1996, Lakeland Electric has entered into contracts with major customers to provide their electric energy requirements.

In October 1997 Lakeland Electric signed a contract to purchase a 249-megawatt gas-fired generating unit. The gas turbine was placed in service in fiscal year 2001. In fiscal year 2000, Lakeland Electric signed contracts to provide equipment and construction of the conversion of the simple cycle unit into a combined cycle unit with a total output of about 360 megawatts. The combined cycle was placed into service during fiscal year 2002. At the end of fiscal year 2003 both contracts were still open pending completion of outstanding technical issues.

CITY OF LAKELAND, FLORIDA  
DEPARTMENT OF ELECTRIC UTILITIES

NOTES TO FINANCIAL STATEMENTS  
(CONCLUDED)

NOTE P - COMMITMENTS AND CONTINGENCIES (continued)

The Department has a contract with Seimens/Westinghouse to provide labor and materials to cover all planned outages based on a specified number of operating hours and starts of the gas turbine mentioned above. At the end of the contract period there will be spare parts with an approximate value of \$6,000,000 that will be turned over to Lakeland Electric. The contract went into effect during fiscal year 2002 and will cover fiscal years through 2005 at an annual cost of \$4.8 million.

It is management's opinion that they are in compliance with the requirements of all the aforementioned contracts.

NOTE Q – SUBSEQUENT EVENTS

The City of Lakeland received notification from Toronto-Dominion Bank advising that the Standby Bond Purchase Agreement (Agreement) dated April 1, 2001 between the City of Lakeland, Florida and Toronto-Dominion Bank will not be extended upon its Stated Expiration date of April 11, 2004. Subsequent to this notice Toronto – Dominion Bank granted a 45 day extension of the agreement to May 26, 2004. This Agreement provides liquidity support for the City's Energy System Variable Rate Revenue Bonds, Series 2001A. The City is actively pursuing and expects to deliver a Substitute Liquidity Facility on or before the Stated Termination Date, as extended, to Bank of New York, as tender agent on the 2001A bond issue, as required by the authorizing Bond Ordinance.